
# Lloyds Bank Review

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# Changing Tendencies in Socialist Thought

*By Thomas Wilson*

"MUCH thinking," wrote Mr. Herbert Morrison after the General Election, "is needed about Labour Party policy. And in the process we have to consider how the people think as well as how we socialists think." It is indeed to be expected that any Party in opposition will devote much attention to its future plans, and the Conservatives, for their part, are believed to have benefited greatly from their six years in the wilderness. The Socialists, however, appear to have set themselves a double task: first, the preparation of a list of specific proposals that will be both acceptable to a divided Party and reassuring to the floating voter and, secondly, a fresh presentation of basic principles that will give new vigour to a movement still jaded by its recent experience of office. The Tories, of course, have also shown from time to time a mild inclination to explain what Conservatism really means, but they have been easily diverted to more amusing occupations.

Some leading Socialists may, perhaps, have a certain sympathy with the Tories and would be glad enough to escape from debates about "Socialism" in order to get on with more specific tasks. But the weaving of theoretical patterns has long been a delight and an intoxication not merely to a handful of left-wing academics but to a vast number of lively and keen-witted people to whom ideology is now what theology was to an earlier generation; herein lies a partial explanation of the strength of the Bevanite and Marxist groups among the constituency parties. Nor must the practical significance of such general ideas be disregarded, for these will provide the touchstone for more detailed and short-term programmes. Although such a test will be applied more eagerly by some socialists than by others, none will be prepared to say that it need not be made at all.

Mr. Morrison goes on:

> There is little real question about fundamentals. And the greatest fundamental of all is that we believe the nation has the right and the duty to supervise and guide the use of—and in appropriate cases to own—its economic resources—the assertion of social responsibility on matters which are properly of social concern.

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Few Tories would probably refuse outright to accept this statement, and the agreement on fundamentals may happily extend far beyond Mr. Morrison's own movement.[1] But differences of opinion must be expected when we turn from Mr. Morrison's article to the Party's constitution, where its objective is said to be :

> To secure for the producers by hand or by brain the full fruits of their industry, and the most equitable distribution thereof that may be possible, upon the basis of the common ownership of the means of production and the best obtainable system of popular administration and control of each industry and service.

If this objective, inserted by the Webbs in 1918, must still be taken seriously, then there really is a wide difference of opinion not only between Labour and Tory but also between—in Mr. Morrison's words—" how the people think " and " how we socialists think". For it can scarcely be doubted that the electorate would decisively reject any Party that was understood to be pledged to widespread nationalization. Indeed Mr. Morrison may be over-optimistic about the agreement on fundamentals within the Party itself, if this clause of 1918 is still held to fall within that category.

That there are serious obstacles in the way of those who would prepare a new statement of principles is clearly recognized by Socialist Union in a pamphlet which, by its freshness and honesty, leads one to hope that they will yet be surmounted :

> The difficulty with which socialists contend today is that their programmes, their ways of thought, their very language, have all grown out of the discontents of the past, and were designed to meet the injustices of a past age . . .

A further difficulty is that the more doctrinaire diagnosis of these former evils proved to be largely false and their removal has owed little or nothing to those remedies which left-wing socialists would regard as peculiarly socialistic. To take only one example, the high level of employment since 1941 may have had many causes, but the nationalization measures of the Labour Government can scarcely be regarded as one of them ; yet it is not so long ago since leading socialist thinkers—who felt that liberals like Keynes suffered from a " cultural time-lag "—were laying it down that employment could not be held

[1] Lest I be accused of reporting him wrongly, I must add that Mr. Morrison clearly has his own Party in mind when he refers to the agreement on fundamentals. Indeed he adds : " The Conservatives stand for the reverse—letting things rip. For anarchy." (*Socialist Commentary*, July, 1955, page 202.)

at a high level if capital was privately owned, because production would then be " for profit, not for use".

The situation is further complicated by the reluctance of some socialists to concede that those measures that really were successful and popular, such as the " welfare policies " which go back to 1906 and indeed beyond, were an instalment of genuine socialism at all. Mr. Crossman is very explicit: " . . . the post-war Labour Government marked the end of a century of social reform and not, as its socialist supporters had hoped, the beginning of a new epoch."[1] Even Mr. C. A. R. Crosland lays it down that, although " . . . by 1951 Britain had, in all the essentials, ceased to be a capitalist country", it was not yet " socialist " and deserved no more than the *demi-monde* title of " statist "[2]. Socialist Union asks whether any of us have " knowledge of a system of institutions which would mark the end of the transition " and, if we had, whether there would " be any agreement on their nature."[3] One is reminded of the Beerbohm cartoon in which the brutal Jowett demands: " And what were they going to do with the Grail when they had found it, Mr. Rossetti ? "

Of course, it would be wrong to take all this too seriously. Words like socialism, capitalism, collectivism and statism are delightful charms whose power is rarely exorcized by definition. But it is worth observing that such restrictive uses of the word " socialist " mark a sharp departure from the attitude of the Webbs, who were prepared, at times to the point of absurdity, to regard almost any kind of state action as an instalment of socialism. Between these extremes stand those who, perhaps because they distinguish more clearly between ends and means, would concede that social security and an employment policy are at least as much part of socialism as public ownership; for their part, they would not cry out against the sacrilege when the unconsecrated Harcourts declare us all to be socialists now.

With these general observations in mind, let us turn to a more detailed examination of socialist thought under three main headings: inequality, public ownership and planning.

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[1] *New Fabian Essays*, page 6.

[2] *ibid.*, page 42.

[3] *Socialism: A New Statement of Principles*, page 41.

## THE DOCTRINE OF EQUALITY

" Socialism," says Professor Lewis, " is about equality."[1] It seems instructive that so unoriginal a remark should be so frequently quoted by his fellow-socialists, and an explanation must be sought in the special situation of the movement at the present time. Although, as we shall see, an interest in planning and public ownership remains, post-war experience has made it difficult to recapture the first fine careless rapture.

Sir Alexander Gray has observed in *The Socialist Tradition* that some of the early Fabians " were more grieved by the world's mess than hurt by the world's wrongs " ; but some of the traditional socialistic methods of dealing with this mess have proved disappointing :

> The Fabians, seeing whole cohorts of individualistic milk-carts delivering milk in each street, Fourier, seeing every miserable housewife cooking her miserable dinner on her individualistic fire, exclaim that this is not how things should be done.

Alas, when a war-time government removed a favourite example of waste by rationalizing the milk-carts, the workers hated it ; and no government has yet dared to attack the individualistic fire. It is not, perhaps, altogether surprising that there has been some shift of emphasis in recent socialist literature from " mess " to " wrongs," for the Party may yet achieve in indignation a unity that has otherwise escaped it. Lest this be thought too hostile an observation, let me quote once more from Lewis : " A passion for equality is the one thing that links all socialists ; on all others they are divided."

Two different lines of thought run through socialist literature : first, a dislike of unearned income and, secondly, a dislike of inequality. Both are apparent in the extract from the Party's constitution quoted above : " To secure for the producers by hand or by brain the full fruits of their industry . . ." Here the influence of Marx is apparent. The producers are felt to be denied some of these " full fruits " and this surplus value provides the capitalists with their unearned income. As Mr. Gaitskell has indicated in his admirable pamphlet, *Recent Developments in British Socialist Thinking*, no intellectually competent socialist would now begin with the labour theory of value ; if unearned income is to be attacked it must be on the more direct and ethical ground that it is undeserved.

That such a sentiment is strongly felt in the movement may be judged from its attitude to dividends, which, with

[1] *The Principles of Economic Planning*, page 10.

capital gains, have now taken the place of rents as the object of unremitting attack. Is this also, one may ask, an attack on inequality? On orthodox Marxian lines the answer would appear to be in the affirmative, for as capitalism approaches its end it will consist of two classes, the exploiting capitalists and the impoverished proletariat whose ranks have been swollen by the dispossessed and degraded petty-bourgeosie; if, then, profits were to be abolished, the surplus value would be available for the workers whose earned incomes were more or less equal because all were on the verge of starvation.

Now, the abolition of profits might not in itself ensure equality. It has failed to do so in Russia. Our own surtax statistics show that roughly three-fifths of the total sum assessed for surtax is "earned". Gross "unearned" surtax incomes came to about £400 millions in 1952/53 and it follows that the larger part of all "unearned" income (£1,500 millions in 1952) went to people with *total* incomes below £2,000—or below, say, £750 at pre-war prices.

With such figures in mind, one has some difficulty in interpreting the present socialist attitude to the distribution of income. Presumably, complete equality of earned income would not be regarded as either just or expedient; and perhaps, though here the ground is less sure, *all* unearned income is not condemned. Maybe it is only really large unearned incomes that are resented, but the criticism of dividends is quite general and not confined to those received by the rich.

A more basic question, to which it is also surprisingly difficult to obtain a clear answer, is why the closest practicable approach to equality of income is held to be desirable. Unfortunately, the whole discussion of inequality acquires a false emotional tone because we tend to compare the state of one rich man with that of one poor man, whereas the real question is whether it is desirable to reduce further the net incomes of those with, say, £1,500–£2,500 a year (gross) in order to make what could only be a very small addition to the incomes of a far greater number of working-class families which spend perhaps a hundred or two a year on drink, tobacco, gambling, television and other amusements. It is not immediately apparent that happiness would thus be increased or our standard of civilization enhanced. Behind the discussion there thus lurks a more basic question: Is the object of our attack on high incomes really an improvement of the lot of the workers? Or would we continue to object to a handful of high incomes even if their disbursement, when spread thinly over

millions of families, would make no significant difference to anyone except the losers?

Compulsion by the State is surely justified only when some who deserve to do so will gain appreciably from the redistribution. If the driving force of British socialism is to be, as it was with Marx, hatred of the rich rather than love of the poor, then the door is open to demagogy and, in the end, to totalitarianism. If, however, the large incomes are attacked only in order to improve, whether directly or indirectly, the lot of the workers, there is little scope for further action, as most socialist writers seem prepared to concede.

### EQUALITY AT HOME ONLY?

The real test of egalitarian theories is to apply them internationally. If it is true that transfers from rich to poor usually add to human happiness, it would seem to follow that wealthy Britain should contribute to, let us say, India on a sufficiently massive scale to eliminate the gap between the standards of living in the two countries. No such proposal has ever, in fact, been made even by the most uncompromising of British egalitarians, and it is worth pausing to ask why it would generally be regarded as absurd to do so. I suppose one answer would be that where there are great differences in what people are accustomed to, those with higher standards would suffer more from the loss of customary luxuries than the beneficiaries would gain, especially when the gains have to be thinly spread.

Moreover, some might add that India would quickly dissipate her benefit in an increase in population, or that world economic development would be disastrously retarded by such egalitarianism, for in a world where there is too little to go round both technological advance and capital accumulation will be held up if all are brought down to an equal level of poverty. Such considerations must not, of course, be made an excuse for rejecting the claims of altruism. All human beings are of the same ultimate worth, and all should have a chance to lead fuller lives. But all may suffer if a too-static egalitarianism checks economic growth.

There is, of course, much genuine concern for the backward countries in the Labour movement, and most socialist writers devote some attention to discussing how we can best help. But such help is possible only if some other object is sacrificed and it is here that the real issue is evaded. Some socialists would cut rearmament and all would cut the consumption of rich people in Britain; but when everything possible

had been done along these lines, it would remain true that the British worker was buying motor-bicycles, television sets and so on while the Indian coolie was undernourished and even hungry. Yet, as far as I am aware, no socialist in this country has proposed any significant cut in working-class consumption in order to benefit the poor overseas. The point is worth stressing because agreement would clearly be easier to reach if socialists were as free from doctrinaire egalitarianism in dealing with domestic affairs.

"One need not be a socialist," writes Gray, "in order to feel indignation against those who sow upon the furrows of unrighteousness, or who buy the poor for silver and the needy for a pair of shoes." There can be few non-socialists who would want to return to the degree of inequality of a hundred or even of twenty-five years ago ; there can be few who would not, on reflection, feel deeply and sincerely thankful that bitter hardship will now be prevented by the welfare state, that the old and the sick will be cared for and that the children, poor as well as rich, have a better chance to develop their talents.

The real difference of opinion occurs because socialists are still inclined to denounce as wrong *any* increase in inequality, however modest. For example, any small reduction in the standard rate of income tax is usually held to be immoral because, although the lower incomes will not be *reduced*, they may not be *increased* as much as the higher ones. It is not easy to make otherwise desirable changes in the tax structure, in subsidies or in rent-restriction when a political storm invariably follows and trade unionists are exhorted to seek redress even at the cost of intensifying the wage inflation. All would go so much more smoothly if socialists would apply to domestic affairs the proposition (which, as we have seen, they implicitly accept when an international comparison puts the British worker himself into the class of the plutocrats) that greater equality is *not* always desirable.

## INEQUALITY OF CAPITAL

Many socialists would appear to agree with Lewis when he says : "Fundamentally we need to attack property, rather than income."[1] It is true, of course, that capital is more unequally distributed than income, although Lewis himself appears to exaggerate when he claims that "two-thirds of the private property in this country is owned by less than 4 per cent.

[1] *Socialist Commentary*, June, 1955.

of the population."[1] As Mr. P. Lamartine Yates has pointed out,[2] these figures are misleading because it is 4 per cent. of the total population including women and children : " it would be truer to say that about 10 per cent. of all families own two-thirds of all private property. Even that," he adds, " is startling enough."

It would be less startling if it were made clear that in order to obtain about two-thirds of total personal capital, one has to include all estates above £5,000. Moreover these figures are based on assessments for death duty, and the smaller estates were never seriously estimated in the past, as every family solicitor is well aware. Only an excessive preoccupation with figures to the neglect of common observation can lead statisticians to suggest that the majority of those over 25 have possessions *of all kinds* worth less than £100 even today. No doubt estates of all sizes tend to be under-estimated, but the proportionate error is likely to be very much greater among the small estates, which are also vastly more numerous.

Since the raising of the exemption limit to £2,000 in 1948, it has been rash to hazard a guess about the distribution of total personal capital. The kind of remark that can now be made is that nearly a third of the value of all estates above £2,000 consists of large estates of £50,000 and upwards, or over two-fifths of estates of £25,000 and upwards.[3]

The unequal distribution of capital is usually criticized on two grounds, of which the first is that it allows the wealthy to exercise excessive power in economic life. This complaint, however, conflicts with the theory of the " managerial revolution," which, now that it has at last attracted their attention, seems to be winning too much support among socialists. For capitalists who are also active businessmen are said to be a rapidly disappearing class and power is supposed to rest with the salaried managers whom Crossman describes as " irresponsible oligarchs".

The second complaint is that unequally divided capital leads to unequally divided spending power. We have already dealt with unearned income but must refer briefly to spending out of capital, in particular the spending of capital gains. Although the Labour Party is divided on many other issues,

[1] *Socialist Commentary*, December, 1955.

[2] *Ibid.*, January, 1956.

[3] Mrs. Kathleen Langley's estimates in the *Bulletin of the Oxford Institute of Statistics*, January, 1954.

there appears to be a good deal of agreement on the desirability of a capital gains tax, and it seems likely that a proposal to this effect will be included in its next election programme. The case for such a tax was considered and rejected by a majority of the Royal Commission on the Taxation of Profits and Income and has, elsewhere, received much attention of late.

Many technical issues are involved that lie beyond our scope and it is possible to raise only one question. Is a capital gain deemed to be made when an asset is realized for more money than it cost, without any allowance for changes in the value of money? Most socialists might answer, like conservative accountants, in the affirmative, but not so Mr. Lamartine Yates: "I submit it would be wrong to tax gains which merely reflect changes in the value of money."[1] This is a point of the utmost importance. The recent stock exchange boom meant large rises in some shares, but the boom failed even at its peak to lift the *Financial Times* index appreciably above twice its 1935 base level. Apart from any changes in the distribution of property, the failure of capital values to keep pace with prices has reduced dramatically the scope for financing consumption by living on capital. For example, the total value of estates of £25,000 and more, as estimated by Mrs. Langley, would have bought in 1951 only three-fifths of what they would have bought in 1936–37.

For many years, governments of both the Right and the Left have been combating the inequality of ownership by means both of death duties and of progressive income taxes which make it more difficult to accumulate a fortune. What is most surprising is the categorical statement in some of the recent socialist literature that such measures have proved almost wholly ineffective. Lewis himself goes so far as to say: "One of the principal tasks of a socialist party is to alter the distribution of property, *and we have not yet begun to use any tool which can have this effect.*"[2] It is not easy to reconcile statements of this kind with what both statistical estimates and ordinary observation of our social life seem so unequivocally to suggest. It would be most unfortunate if the new socialist thinking were to begin with a serious error of fact. The distribution of capital *has* become more equal and the process will be much accelerated by deaths that will occur over the next ten years.

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[1] *Socialist Commentary*, December, 1955, page 391.

[2] *Ibid.*, December, 1955, page 366.

Do we want to do more than this? Clearly, a strong case can be made for doing so if what is intended is the building up of the smaller properties. Thus Lewis refers to what he calls "a new line of country for us: to spread property ownership widely, instead of merely destroying private property"[1]; and Yates has taken up the suggestion by proposing better outlets for the investment of small sums. The lack of such outlets, together with the archaic state of the law governing the use of trust funds, accounts in part for the slow growth of the smaller estates. It is time the Tories began to think seriously about this aspect of a "property-owning democracy," and also about the proposal, put forward by Professor Robbins in the October, 1955, issue of this REVIEW, that a new type of succession duty should replace estate duty:

> There is all the difference in the world between a system which taxes the estate as a whole on a steep basis of graduation and a system which applies the same graduation, not to the estate as a whole, but to the portions which are received . . . by the legatees. The one system tends to the obliteration of property, the other to its wider diffusion.

Such reforms could prove to be of immense importance, and inequality of capital would be reduced. But there is an important difference between income and capital in that, while everyone needs income and will exert at least some effort to get it, capital is not necessary in order to live in reasonable comfort. Of course, we should all like to have some capital; but we are not all convinced that the sacrifice involved in saving is worth while. To be frank, we are spendthrifts. We choose to be so and don't want any sermons, but we must, in turn, play fair and not pretend that our lack of property is simply the fault of society.

If it is true that most families in this country own less than a couple of thousand pounds, capitalism cannot be to blame; after all, the handful of people with large properties cannot have accounted for much of the £17,600 millions spent on drink, tobacco and entertainments in this country between 1946 and 1955, not to mention the expenditure in excess of strict needs on food, clothes, television, motor-bicycles and cars, and household fittings and equipment of all descriptions. The neglect of thriftlessness is a serious defect of socialist

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[1] *loc. cit.*, June, 1955, page 173.

thought. Particular interest, therefore, attaches to Lewis' remark that:

> An equalitarian distribution of property . . . does depend upon an equal willingness to hold property or securities, and there is no such equality of willingness. The most that we can usefully do is to concentrate on those . . . who show a desire to acquire and hold property—we should help to acquire property only those who are helping themselves.[1]

Lewis is not, however, prepared to leave it at that:

> Where socialists part company with liberals is in recognizing the limits of these measures. Unless human behaviour changes very greatly, private property will always be concentrated in ownership. The inequality may be more or less, but it will always be substantial. Hence it is important to socialists that the ratio of public to private ownership should be greater than it now is.

Why this should be important is not quite clear, but what is implied is an intensified attack on property. Lewis proposes a capital levy on " large properties," by which he means those above £10,000—or, say, £3,500 at pre-war prices. The choice of so modest a lower limit may seem surprising and would certainly not encourage thrift if it were to be adopted. It is also surprising to observe Mr. Lamartine Yates abandoning the path of moderation in order to suggest estate duty at 19s. 6d. in the pound on amounts above £10,000.[2] That is to say, the thriftlessness of the many is to be visited on those who save a little and try to make modest provision for their children. It is argued that *equity* requires this to be done.

In previous discussions of capital levies it has usually been assumed that the proceeds would be used to reduce the national debt. The total sum of private property would then be smaller and there would be a small budgetary saving. Mr. Hugh Gaitskell, however, has revived a suggestion once made by Dr. Dalton, to the effect that the State should accept ordinary shares in payment of death duties. (He does not propose a capital levy.) The object of doing so would not be to give the State control over certain companies; on the contrary, he makes it clear that the companies would be free to run themselves as before with the State as a sleeping partner.

" Ownership without control " is the new doctrine, and some may regard it as, in a way, a remarkable compliment paid by a socialist leader to private enterprise. Undoubtedly we

[1] *loc. cit.*, December, 1955, page 366.

[2] *loc. cit.*, January, 1956, page 21.

have moved a long distance from the Webbs, who held that private firms could never compete with public ones. The State, so far from taking over these firms because they are held to be ill-managed, is rather to claim a share in the progress of capitalism. This State, it must be recalled, will itself be heavily in debt, but rather than reduce its indebtedness it is to behave like a City professional by borrowing at fixed interest in order to hold equities. Moreover, the State is to incur a risk to its objectivity for the sake of what could, at best, be a trivial addition to its income.

## PUBLIC OWNERSHIP

Is the ultimate abolition of private property a basic aim of the Labour Party? The question is of more than academic interest, because if this is indeed the goal every Labour government will presumably feel obliged to progress at least some distance towards it and may, moreover, adopt somewhat different attitudes to such issues as monopoly and taxation.

Unfortunately, a clear answer cannot be given. It is true that the constitution refers, as we have seen, to " the common ownership of the means of production and the best obtainable system of popular administration and control of each industry and service." These words seem to indicate the final sweeping away of private enterprise. In 1937 Lord Attlee endorsed this view in his book *The Labour Party in Perspective*, where he observed that " the essentials of Socialism have been well stated by Bertrand Russell " in a passage which deserves to be quoted once more:

> Socialism means the common ownership of land and capital together with a democratic form of government. It involves production for use not profit, and distribution of the product either equally to all or, at any rate, with only such inequalities as are definitely in the public interest. It involves the abolition of all unearned wealth and of all private control over the means of livelihood of the workers. To be fully realised it must be international.

Whether Lord Attlee would have accepted so uncompromising a statement of ultimate objectives in 1945 is not altogether clear, but in a declaration of short-term policy his Party distinguished between three types of industry: (1) " basic industries ripe and over-ripe for public ownership," (2) " big industries not yet ripe "—but presumably ripening and at all events in need of public supervision, (3) " smaller businesses rendering good service which can be left to go on with their useful work." If this statement is coupled with the socialist

belief that the day of the small firm is rapidly passing, it would appear that the nationalization carried out between 1945–51 was intended to be only a modest instalment of a vastly more far-reaching programme.

We must, however, be cautious in drawing any very definite conclusions about what the Party has in mind. It is true that Socialist Union lays it down that:

> All socialists were united in proclaiming the moral and historical necessity of some form of "common ownership of the means of production, distribution and exchange"; . . . in the minds of most socialists, what characterised the "socialist system" was common ownership accompanied by central planning.

But the authors are clearly aware that such "common ownership" is not a *sufficient* condition for social progress: "In Russia complete collectivism has been achieved, yet it has only uncovered the abyss between reality and the image of the good society which socialists have cherished." That complete public ownership may not be even a *necessary* condition is less boldly stated, but there is at least a hint that the authors hold this view. At all events many supporters of the Labour Party undoubtedly feel, as many have always felt, that the socialization of a few "basic" industries should suffice, and some would be inclined to withdraw their support if it were made clear that the modesty of a short-run programme was merely a necessary consequence of "gradualism."

Party labels always cover much diversity of thought, and this is particularly true of the Labour Party. It is difficult to believe that its more right-wing leaders really believe in any great extension of public ownership. Their proposals of 1951 and 1955 failed signally to carry conviction; these were proofs of orthodoxy reluctantly given and so chosen as to do as little damage as possible to the nation's economy. Not so the Bevanite Left. Mr. Bevan himself has declared (*Manchester Guardian*, February 6th, 1956) that the socialist movement "has no longer any appeal when some people go about saying we are going to investigate industries, one by one, to see whether they qualify for nationalisation."

In view of the great strength of the Bevanite group in the constituencies, such remarks deserve close attention. It would be unwise to infer from the attitude of some of the right-wing leaders that a future Labour government will show little interest in nationalization, for such a government will, in fact, be a coalition and its policies will represent a compromise. Admittedly the Right is in the strong position of knowing that

the bulk of the electorate dislikes nationalization, and it would be safer to offend the Bevanites than to alienate the more open-minded voter. But some extension of public ownership must be taken for granted. The steel industry would presumably be taken over once more, although it may be assumed that a referendum on this specific proposal would reveal overwhelming opposition. Road transport would doubtless also be affected in some degree. Denationalization would be followed by " re-nationalization "—and ultimately, perhaps, Sir Alan Herbert would be able to add "re-denationalization" to his black list! But how much fresh nationalization is contemplated? If Mr. Gaitskell must perforce offer new sacrifices, how would he choose his victims?

### TESTS FOR SOCIALIZATION

Mr. Gaitskell himself has recently reminded us of the three tests suggested by Professor Tawney twenty-five years ago in his *Equality :* Are the industries basic? Do they need to be reorganized? Are they monopolistic? With some modifications, the same tests were officially endorsed in *Labour and the New Society*. Let us now examine them in turn—on the assumption that they are genuinely designed to separate the sheep from the goats, not merely to settle the order of execution when all have already been condemned on more Marxian grounds.

The meaning of the term " basic industry " has long been debated, and it cannot be said that ambiguity was dispelled by the authors of the official statement of 1950 when they referred to an industry " on which the economic life and welfare of the community depend "—forgetful, apparently, of the Fabian playwright who might have asked them awkward questions about chocolate creams! No less ambiguous is the reference to industries of this kind " which cannot be left safely in the hands of groups of private owners not answerable to the community." Are these industries to be nationalized because they are, in some sense, important? If so, the list will be long and must, of course, include farming, distribution and the press. Or must they, in order to qualify, be both " basic " and in some way unsuitable for private enterprise? Then the list may be short.

Naturally, the second test, an industry's need for re-organization, received much emphasis before the war. Unfortunately, both some of the socialists and some of the capitalists who urged the need for " rationalization " made

insufficient allowance for the way in which a rise in monetary demand could transform the most depressed of industries and areas. Both Parties, moreover, were inclined to suppose that if an industry were not prosperous, there must be some grave structural fault, as though no trade need ever decline. After all, these industries had not such obviously strong claims on the nation's capital. Let us appeal once more to Lewis : " If the British government had owned the coal industry, or cotton, or the land in the 1920's and 1930's it would have been just as reluctant to invest new capital in them as were the private capitalists."

If any industries were to be nationalized by this last test today, they would probably be different ones. Coal and the railways have been dealt with and the problems of the cotton industry seem to have given pause to even the most dauntless of nationalizers. But there have been some references to machine tools and aircraft, and Lewis himself once raised a solitary voice in favour of taking over the motor-car industry on the ground that only by such means could adequate standardization be obtained.

Now, the assumptions underlying such proposals need to be clearly stated. The issue is efficiency, not profiteering ; but all industries are by some standards inefficient. What has to be demonstrated, with full empirical evidence, is that any alleged inefficiency is grievous and impervious to other treatment but such as may be overcome by public ownership—presumably because the new managers will be more efficient than the old, better able to run their factories, more sensitive to what the public wants, more keenly aware of technical development and more competent at balancing what such developments can offer against the advantage of longer runs. Real technical and economic knowledge will be needed for such an assessment ; a snap political judgement based on hearsay that is superficial, if also congenial, will scarcely suffice.

## ATTITUDE TOWARDS MONOPOLY

The third test is " monopoly " and this raises at once some of the most difficult issues in socialist thought. To begin with, we must note that a large part of the Labour movement is by no means inclined to regard unfavourably either the emergence of the industrial giant which dominates its industry or the adoption of " restrictive " practices by a group of independent producers. Trade unionists, after all, have no irrepressible bias in favour of competition and are, indeed,

inclined to attribute to it much of the instability of the inter-war years; they feel that agreements about price and output may well be justified and they are by no means hostile to the huge concern.

" Instead of socialising the economy," writes Mr. Crossman in his *Socialism and the New Despotism,*

> the attempt could be made to break up the concentrations of power, or at least to ensure that they were subject to genuine competition . . . I mention this American philosophy only in order to remind you that it is inapplicable to Britain. In the first place, Britain is too small. And, secondly, British capitalists are as afraid as British trade unions of genuinely competitive free enterprise.

The speed and assurance with which the case for competition is here dismissed is a little breath-taking, and socialist economists would be more cautious. But I suspect that Mr. Crossman has only done here what he has so often done before: he has stated clearly and sharply an assumption on which much of the economic thinking of his Party is based. I do not think it unfair to say that even among professional economists those on the Left look with scant favour on the smaller firm and show little interest in devising ways of easing some of the special difficulties with which it is confronted; on the contrary, there is almost an eagerness to show that the large concern is more efficient, to emphasize the degree of concentration and to contend that it is likely to grow.

There is another group within the Party with a very different attitude. To them, competition is healthy and competition can be strengthened by a policy directed against restrictive practices. " Within the framework of overall government planning," writes Mr. C. A. R. Crosland, " the proper way to make the private sector responsive to the needs of the community is to make it competitive. The failure to do so was perhaps the greatest single failure of the post-1945 Labour administration."[1] When the economies of large-scale production are such as to leave room for only one or two firms, then nationalization may still be regarded as the only satisfactory remedy; but it is only a remedy of last resort, for public ownership brings new problems and competition is too valuable to be sacrificed to the nationalizer unless it is in any case

[1] *New Fabian Essays,* page 64.

doomed. " Nationalisation of monopolies is frequently desirable," says Lewis,

> but it is not desirable that nationalisation should be an instrument for increasing monopolisation. . . . It is an improvement on private monopoly and desirable in industries that would in any case be monopolistic, but complete nationalisation should never be introduced in any industry which is not naturally or desirably monopolistic.

Here, it would seem, is an arguable view that would, indeed, be accepted by many who are not committed to the Labour Party. But it must be recognized that very little nationalization would be justified by this criterion. Generally speaking, competition in business is vastly under-estimated by those outside it. There are, after all, very few cases where a single firm safely controls a market simply because the economies of size are overwhelming. Even in these cases it would be wrong to accept without scrutiny the claim that a public monopoly will always be better than a private one. Monopoly is a question of degree, and we can usually assume that the monopoly will be tightened by nationalization.

Moreover, we must be informed as precisely as may be of the ground on which the private monopoly is indicted. Is it high profits that are feared ? These can usually be detected and the firm threatened with control. Is it the keeping out of newcomers ? Will a public corporation, then, be more welcoming ? Is it that " the reward of monopoly is an easy life " ? How then will a public concern avoid this insidious ease ? May it not be that a far more effective safeguard against both profiteering and sloth would be a little foreign competition ?

Is it that the public concern will be more subject to control by the planners ? But it is not easy to think of any big firms that have refused to co-operate with the government since 1945 ; it would not indeed be easy to name many that could rival some public corporations in the independence of their outlook. Perhaps one of the major weaknesses of socialist thought about nationalization, and indeed about the more general aspects of planning, is the implicit assumption that central government is carried on by a united group of people who, free from the profit motive and untainted by competition, devote themselves to the co-ordinated pursuit of the common good. Yet those socialists who have been Ministers or civil servants must be aware that one of the most marked characteristics of Whitehall is the strength of departmental ambition and jealousy.

There is a moral here for industry. Since decentralization

is necessary, each socialized industry must have its board or boards, and to those in charge the defence and advancement of their industry must become a prime objective. It would be unwise to take it for granted that more attention will always be paid to the public interest by a public concern than would be paid by a private firm. The latter, indeed, may be the more responsive of the two because its monopolistic power will usually be less complete and it will be more subject to the discipline of the market.

## PLANNING AND CONTROLS

As Mr. Gaitskell has observed in his survey of socialist thought, the thinking of the Labour Party was greatly influenced by the adoption of full-scale planning during the war. " There was, of course, no question of maintaining the whole war-time apparatus of control. . . . But the question remained—what controls should be retained, temporarily or permanently?"

In the event there was a gradual retreat from planning even before the change of government, and a study of the *Economic Surveys* indicates how the proposals became increasingly more modest between 1947 and 1951. Not, of course, that anyone, inside or outside the Party, has contemplated the complete abandonment of planning; it is a question of the extent to which planning should be attempted and the means which ought to be used. Lewis is admirably clear on this point; he observes that the Labour Government " soon began to dismantle controls, for three reasons: first they were cumbersome, secondly they were unpopular, and thirdly they were unnecessary." Mr. Gaitskell, for his part, explains why rationing and subsidies were held for a time to be desirable but adds: " Today the party attitude in the main is that free choice must be continued and unfairness corrected rather through redistribution of income wealth [*sic*] than through direct controls."

On the vexed question of imports, there are many socialists —and some non-socialists—who would be inclined to say that direct controls are by no means unnecessary. Mr. Gaitskell makes the main point as follows:

> Now nobody would deny the need to check excessive monetary pressure, but it is most unlikely, if we rely on general restrictions of this kind, that brimful employment will be maintained. After all, the general reduction in demand will not necessarily lead to either the required increase in exports or fall in imports before it has damped down industrial production and productivity and produced actual unemployment.[1]

[1] *Encounter*, November, 1955.

Is it worth while, therefore, to keep the elaborate and costly machinery of import controls—which, he remarks, " are not popular internationally " and " are not easy to administer " —lest they should be needed in an emergency? This is a large topic of current debate that we cannot pursue further here.

The Bevanite wing of the Party is naturally inclined to rely much more upon the permanent use of controls than would either Mr. Gaitskell or Professor Lewis. These controls would presumably include not only those over imports, building and raw materials but also the control of personal incomes. " Profits, wages and salaries," says Mr. Crossman, " are still determined not by any conditions of national interest or social justice, but by the traditional methods of *laisser faire*." It is on the Left that the demand for a national wages policy is most frequently made, although the plea is usually based solely on the contention that existing methods will not do and is unsupported by any description of the form a practicable national wages policy might take.

It is true that Mr. Gaitskell himself is inclined to doubt " whether in conditions of very full employment it is possible to prevent for long some inflation of costs, unless there is an understanding between the Government, the unions and the employers imposing a restraint all round." He goes on to warn that Dutch methods might not suit here, observes that other incomes would have to be controlled too but concludes that " it is hard to see how we can keep our brimful employment without something of the kind."[1] Such a policy is unlikely to be welcome among the trade unionists, especially if what is involved is not merely the temporary moderation of claims but some machinery for the permanent fixing of relative rates of pay by a central authority which would in the end deprive the unions of their main traditional function.

There are many reasons why economic planning has become gradually less ambitious since 1945, but one of the chief is undoubtedly the difficulty of distributing manpower and controlling wages. The manpower budget was the principal instrument of domestic planning in war-time, but people will not put up with the direction and control of labour in time of peace. Nor will they stand for the central control of relative incomes. One cannot help feeling that any substantial advance in socialist thinking must begin with the acceptance of these two facts. Meanwhile, it would be helpful if the undeniable defects of our present arrangements were not made worse by

[1] *loc. cit.*, page 43.

exaggerated statements about dividends, capital gains and the barely perceptible effect that modest changes in subsidies may have on the cost of living.

### THE "NEW DESPOTISM"

Perhaps the most interesting development in socialist thought has been the realization that it may be dangerous to put too much power into the hands of the State. Indeed there are parts of Mr. Crossman's pamphlet, *Socialism and the New Despotism,* that might almost have been written by Professor Hayek: if private industry is uncontrolled, so are the public corporations under their "irresponsible oligarchs"; "the growth of a vast, centralised state bureaucracy constitutes a grave potential threat to social democracy"; the Cabinet is weak and Ministers must be enabled "to regain control of the huge state bureaucracy"; the Ministers themselves are too secure and their responsibility to Parliament "is rapidly becoming a constitutional fiction." Thus, he goes on, "the next Labour Government will not only need to nationalise: an almost equally important task will be to democratise the vast institutions, already theoretically responsible to it."

There is truth behind the exaggeration, but what leaves one astonished is the unshaken assumption that private enterprise must nevertheless be rapidly swept away. It is not unfair to say that the main weakness of Crossman's writings derives from his failure to appreciate that the price system provides an alternative form of "representative government"—imperfect, no doubt, but indispensable. In this respect he is representative of a large body of opinion in the Party. Lewis, of course, stands apart, and his *Principles of Economic Planning* should be carefully studied by his fellow-socialists. Nor does he lack bluntness when he says: "There still are totalitarians among us, who believe in 100 per cent. public ownership."[1] Too often one can still hear the leaden echo of Fabian Tract No. 70: "... the equality of subordination to the common interest which is fundamental to modern socialism."

The price system can keep industry under responsible government in a way in which Parliamentary government, however well provided with new standing committees of the House, as proposed by Crossman, could never do. Unforfortunately, it suffers not only because intellectual effort is needed to understand it but also because it seems to offer only

[1] *Socialist Commentary,* December, 1955, page 366.

the impersonal "cash nexus" that so many have found offensive. No doubt it can be shown that such complaints often reflect confusion of thought, but their persistence can only, I believe, be understood as a manifestation—no doubt an illogical one—of the deep feeling of dissatisfaction with the lack of personal relations in large-scale industry.

"What emerges now," asks Socialist Union, "as the leading task for socialists? . . . The answer . . . can be summed up in a phrase, to arouse *responsible participation*." In one way or another, this has always been a leading task for democratic socialists. Although the formal theories of guild socialism, if they deserve such a term, were rejected, and Mr. Morrison's public corporation became the chosen instrument, guild sentiments persisted, and it was generally assumed in the movement that the feeling of "responsible participation" would come with public ownership. Disillusionment has followed. "It has already become clear," observes Socialist Union,

> that the mere act of nationalisation does not automatically change industrial and social relations in the direction we desire. The recognition of this new problem has called forth a new slogan : "Nationalisation is not socialisation."[1]

We are touching here on a problem of great difficulty that received the attention of the older economists and has not been neglected by the Tories. In part, impersonal relations are the inescapable consequence of economic development, and capitalism is blamed, as it often is, for what is really a problem of industrialization. Nor is it easy to find an arrangement that will provide both for participation and discipline, both for consultation and for speedy business decisions. Moreover, many do not want to participate in the taking of responsibility and those who do may be deliberate trouble-makers. The obstacles are serious but something may be done, and socialists can help by adopting a less hostile attitude to schemes for both consultation and profit-sharing in private industry, a hostility that reflects a doctrinaire dislike of private enterprise.

## CONCLUSION

A survey of modern socialist thought leaves one both disappointed and hopeful. It is disappointing that so much attention is still devoted to unimportant matters and so little to some of the major issues that confront us. It is regrettable that even the moderate leaders should say so much to the

[1] *Ibid.*

workers about, say, dividends and so little about the appalling precariousness of our international position. It is discouraging that some of those who denounce with apparent sincerity every peccadillo on the part of trade associations should remain silent and detached when a great shipyard is brought to a standstill by the folly of organized labour. It is confusing to try to detect the trends in opinion when there is so much internal division and even bitterness. With the struggle for power by no means finally resolved, it is not easy to predict how far the Party will follow the more empirical path of Mr. Gaitskell rather than the more doctrinaire one of Mr. Bevan.

On the credit side, great progress has been made in shaking off the incubus of Marxist theory which has had far more effect on Labour opinion than is usually recognized. Among progressive thinkers there is now little enthusiasm for public ownership or controls, and there is even a growing recognition that the premises of egalitarianism need to be looked at afresh. Several new statements on socialist policy have been promised, and at the time of going to press the first of these, which deals with *Personal Freedom : The Individual and Society,* has just appeared. One can discern in this document some of the conflicting tendencies already described. It is good that the Party should now be prepared to recognize so explicitly the danger of an abuse of power by the executive. It is a pity that the familiar references to the dangers that may follow from "great concentrations of private power" are unaccompanied by any adequate mention of the abuse of power by organized labour. As *The Times* drily observed: "The judgment on this first policy statement must be that, while many of the sentiments it contains are admirable, their implications have been explored with less than courage" (June 18th, 1956). Let us, however, feel grateful for the progress achieved and look forward to some new and positive contributions of a kind appropriate to the peculiar needs of a country that is both very rich and very insecure.

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*June,* 1956.

# Britain's Foreign Investments: The Post-War Record

*By F. W. Paish*

THE term "foreign investments" has two possible meanings. In one sense it means the amount of capital exported during the period, in the other the changes in the value of the foreign assets owned by U.K. residents. The two senses are, of course, connected, for the greater the exports of capital have been in the past, the larger the stock of investments is likely to be today. But the present stock of foreign investments is very far from being a mere cumulative total of past capital exports. Not only may foreign investments be acquired with capital borrowed abroad, but earlier capital exports may have been lost as the result of defaults, expropriations or disappointed hopes of profit. Alternatively, they may have been augmented as the result of good fortune, wise management or the ploughing back abroad of profits earned abroad (which do not enter into the balance of payments figures). In addition, the market values of foreign investments may change, not as the result of any change in yield, but merely in consequence of changes in rates of interest ruling in home markets. Thus the current value of a country's foreign investments may well fall, at least for a time, even though it continues to export capital; while conversely it may rise substantially even though current exports of capital are small or even negative. This article will examine the position of the United Kingdom both as an exporter of capital and as an owner of foreign investments.

## I

### THE UNITED KINGDOM AS AN EXPORTER OF CAPITAL

Since the war, the United Kingdom's record as an exporter of capital has been perhaps the most disappointing part of its history. In spite of the fact that real national income is today probably more than 25 per cent. above the pre-war level and probably 70 per cent. higher than in 1913, British capital exports, which in 1913 were the equivalent of about £800 millions at today's prices, have in the last three years averaged only some £60 millions a year, while over the whole of the

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post-war period they have been substantially negative. The failure of Britain to maintain since the war a margin of saving over domestic investment sufficient to supply out of her own resources more than a fraction of the capital needs even of those countries in the Commonwealth which are accustomed to look to her for finance is perhaps the most important cause of her decline as a world power.

While, however, the United Kingdom has been able to spare little of its own resources for investment abroad, it has hitherto been able partially to fill the gap left by its own inadequacy by a substantial re-export trade in imported capital. The most important source of this imported capital has been the dollar area, mainly the United States and, to a smaller extent, Canada. The extent of these imports of capital is shown in Table I. In this the ten post-war years are divided into three periods: the first is the period of reconstruction, from 1946 to 1949, ending with the devaluation of sterling; the second, from 1950 to 1952, covers the period of the Korean war; while the third, from 1953 to 1955, covers a period of "normality" which offers no particular excuses for inadequacy. In the first of these three periods the United Kingdom was a heavy net importer of capital, in spite of substantial withdrawals

TABLE I

*Sources of Funds Invested by the United Kingdom Outside the Dollar Area*

| | 1946–49 | 1950 | 1951 | 1952 | 1950–52 | 1953 | 1954 | 1955 | 1953–55 | Total 1946–55 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **United Kingdom Balance of Payments on Current Account.** | | | | | | | | | | |
| Balance of Payments on Income A/c .. .. | −709 | 300 | −407 | 126 | 19 | 75 | 155 | −147 | 83 | −607 |
| Defence Aid .. .. | — | — | 4 | 121 | 125 | 102 | 50 | 44 | 196 | 321 |
| TOTAL .. | −709 | 300 | −403 | 247 | 144 | 177 | 205 | −103 | 279 | −286 |
| **Imports of Capital from Dollar Area.** | | | | | | | | | | |
| Grants .. .. .. | 388 | 239 | 54 | — | 293 | — | — | — | — | 681 |
| Increases in Sterling Balances .. .. .. | −3 | 48 | −41 | −4 | 3 | 28 | 35 | −39 | 24 | 24 |
| Other Capital Imports .. | 1,278 | 118 | −34 | 40 | 124 | 3 | 38 | 58 | 99 | 1,501 |
| TOTAL .. | 1,663 | 405 | −21 | 36 | 420 | 31 | 73 | 19 | 123 | 2,206 |
| **Withdrawals from Gold and Dollar Reserves.*** (addition −) | 156 | −575 | 344 | 175 | −56 | −240 | −87 | 229 | −98 | 2 |
| **Total Invested Outside Dollar Area** .. .. | **1,110** | **130** | **−80** | **458** | **508** | **−32** | **191** | **145** | **304** | **1,922** |

* In terms of *dollars*, the changes in our gold and dollar reserves have been as follows:—

| | $m |
|---|---|
| 1946–49, fell by: | 788 |
| 1950–52, rose by: | 156 |
| 1953–55, rose by: | 274 |
| 1946–55, fell by: | 356 |

Sources: *U.K. Balance of Payments White Papers* (Cmd. 8976, 9430 and 9731).

from its exiguous gold reserves, as the result of the very large adverse balances of payments in 1946 and 1947. In the second period this adverse balance was converted into a favourable balance of payments of £144 millions, of which £56 millions were used to replenish the gold reserve, leaving an average of less than £30 millions a year for foreign investment. In the third period the aggregate favourable balance of £279 millions left, after adding £98 millions to the gold reserves, only £60 millions a year to finance the export of capital.

### IMPORTS OF CAPITAL FROM THE DOLLAR AREA

Table I also makes clear how it was that the United Kingdom, in spite of the small size of its own favourable balance, has been able to make quite large amounts of capital available to the non-dollar world. In the first period, from 1946 to 1949, no less than £1,663 millions were imported from the dollar area, £388 millions as gifts and £1,275 millions by way of loans. This enabled the United Kingdom not only to meet its own adverse balance but to provide over £1,100 millions of capital for the rest of the non-dollar world. After 1949, with the exhaustion of the dollar loans raised in 1946 and the tapering off of Marshall Aid, imports of capital from the dollar area rapidly declined, to £420 millions in 1950–52 and £123 millions, presumably from non-governmental sources, in 1953–55. This rapid fall in capital imports from the dollar area much more than offset the slow improvement in the United Kingdom's own balance of payments, and our exports of capital to the non-dollar world fell rapidly from £1,110 millions in 1946–49 to £508 millions in 1950–52 and £304 millions in 1953–55.

While the grants and loans made by the United States to Britain between 1946 and 1951 were not intended to provide the United Kingdom with resources to invest abroad, there can be little doubt that the fact that Britain was thus enabled to export substantial quantities of capital to the rest of the world was an important factor in promoting world economic recovery. It is probably a pity that means could not have been found to continue the process, for the United Kingdom has all the qualifications for a successful exporter of capital—specialized institutions, financial connections, long experience: all the qualifications, that is, except one, the availability of adequate resources to invest. If it had been possible for the United States to have continued to supply this sole deficiency, the results

might in the long run have proved beneficial both for the ultimate suppliers of the capital and for its ultimate users.

### DISTRIBUTION OF UNITED KINGDOM CAPITAL EXPORTS

The way in which the shrinking outflow of capital from the United Kingdom has been distributed to the non-dollar world is shown in Tables II to IV. In the official statistics the figures are classified primarily according to the form of investment and only secondarily by area. The three main classifications are grants on capital account (to be distinguished from grants on income account, such as Defence Aid and the grants made by the United Kingdom to various colonies) ; net repayments of the very large sterling balances held by foreign banks, governments and others in London ; and " other capital exports," a residual item which represents the net balance of an enormous number of individual capital transactions in both directions, and incidentally contains all the errors and omissions from the other accounts, current as well as capital. In the tables given

TABLE II

*U.K. Capital Exports to Non-Dollar, Non-Sterling Countries*

| | 1946–49 | 1950 | 1951 | 1952 | 1950–52 | 1953 | 1954 | 1955 | 1953–55 | Total 1946–55 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Other Western Hemisphere Countries.** | | | | | | | | | | |
| Grants .. .. .. | 15 | 2 | 11 | — | 13 | — | — | — | — | **28** |
| Decreases in Sterling Balances* .. .. .. | 83 | 35 | −12 | 51 | 74 | −34 | 32 | −1 | −3 | **154** |
| Other Capital Exports .. | −179 | −34 | −30 | 5 | −59 | −19 | −47 | 3 | −63 | **−301** |
| TOTAL .. | −81 | 3 | −31 | 56 | 28 | −53 | −15 | 2 | −66 | **−119** |
| **O.E.E.C. Countries.** | | | | | | | | | | |
| Grants .. .. .. | 86 | 96 | — | — | 96 | — | — | — | — | **182** |
| Decreases in Sterling Balances*— | | | | | | | | | | |
| E.P.U. .. .. | — | 80 | −246 | −53 | −219 | 21 | 78 | −1 | 98 | **−121** |
| Other .. .. | −11 | 72 | −51 | 112 | 133 | −13 | −18 | 33 | 2 | **124** |
| Other Capital Exports .. | 168 | 15 | 79 | 25 | 119 | 47 | 7 | 25 | 79 | **366** |
| TOTAL .. | 243 | 263 | −218 | 84 | 129 | 55 | 67 | 57 | 179 | **551** |
| **Other Non-Sterling Countries.** | | | | | | | | | | |
| Grants .. .. .. | 11 | 1 | — | — | 1 | — | — | — | — | **12** |
| Decreases in Sterling Balances* .. .. .. | 108 | 22 | −22 | 123 | 123 | 27 | −60 | 15 | −18 | **213** |
| Other Capital Exports .. | 88 | 41 | 71 | −4 | 108 | 19 | 51 | −8 | 62 | **258** |
| TOTAL .. | 207 | 64 | 49 | 119 | 232 | 46 | −9 | 7 | 44 | **483** |
| **Total Non-Dollar, Non-Sterling Area.** | | | | | | | | | | |
| Grants .. .. .. | 112 | 99 | 11 | — | 110 | — | — | — | — | **222** |
| Decreases in Sterling Balances*— | | | | | | | | | | |
| E.P.U. .. .. | — | 80 | −246 | −53 | −219 | 21 | 78 | −1 | 98 | **−121** |
| Other .. .. | 180 | 129 | −85 | 286 | 330 | −20 | −46 | 47 | −19 | **491** |
| Other Capital Exports .. | 77 | 22 | 120 | 26 | 168 | 47 | 11 | 20 | 78 | **323** |
| **Total** .. | **369** | **330** | **−200** | **259** | **389** | **48** | **43** | **66** | **157** | **915** |

* Increase —    Sources: As for Table I.

here the order of classification is reversed, the main classification being by area and the sub-classification by form of investment. This change brings to light certain features which are not immediately obvious in the official presentation.

The situation revealed and presented in Tables II to IV is briefly as follows. During the first four post-war years, of the £1,110 millions of capital exported to the non-dollar world, £757 millions, or more than two-thirds, went to the sterling area. After 1949, however, there was a striking change. Of the £812 millions of capital exported during the next six years, no less than £546 millions, or just about two-thirds, went to non-sterling countries, while a further £112 millions was exported through the agencies of the International Bank and the International Monetary Fund, no doubt also largely to non-sterling countries, leaving only £154 millions, or less than 20 per cent., for the sterling area.

TABLE III

*U.K. Capital Exports through Non-Territorial Organizations*

| | 1946–49 | 1950 | 1951 | 1952 | 1950–52 | 1953 | 1954 | 1955 | 1953–55 | Total 1946–55 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Decreases in Sterling Balances .. .. .. (Increase –) | –576 | –1 | 11 | –1 | 9 | 56 | 35 | 7 | 98 | **–469** |
| Other Capital Exports .. | 560 | 1 | 4 | 3 | 8 | –2 | 5 | –6 | –3 | **565** |
| TOTAL .. | – 16 | — | 15 | 2 | 17 | 54 | 40 | 1 | 95 | **96** |

Sources: As for Table I.

The proportion of capital exports going to the non-sterling area in 1946–49 would almost certainly have been a good deal higher if it had not been for the large import of capital from Argentina in 1948 as the result of the sale of the Argentine railways. For the rest, it seems probable that, apart from the grants, made partly to U.N.R.R.A. and partly as a concomitant of Marshall Aid, exports of capital to non-sterling countries have been largely involuntary, occurring as the result of realizations by foreigners of sterling assets rather than of positive British investment. This was certainly true of the withdrawals from foreign-owned sterling balances, where repayments of £491 millions over the ten years greatly exceeded the sterling debt of £121 millions incurred to the European Payments Union, and was probably also true of much of the £323 millions of "other capital exports."

## UNITED KINGDOM CAPITAL EXPORTS TO THE STERLING AREA

While the share of total capital exports which has gone to the sterling area since 1949 has been very small, its share of " other capital exports," which include all exports of long-term capital, has been quite large, with £775 millions out of a total of £1,026 millions. This has been possible only because the sterling area as a whole, so far from running down its sterling balances, has increased them over the six years by no less than £621 millions, thus collectively providing on short-term the great bulk of the capital it has borrowed on long-term.

It is further possible to ascertain from the United Kingdom balance of payments White Papers that more than the whole of this increase in sterling balances came from the colonies, whose balances rose by about £650 millions (the transfer of Northern Rhodesia and Nyasaland out of the category of colonies during the period makes the exact figure uncertain), while the combined sterling balances of the non-colonial sterling area probably fell slightly. In addition, the colonies seem to have bought some £90 millions of dominion and colonial sterling securities on the

TABLE IV

*U.K. Capital Exports to Sterling Area*

| | 1946–49 | 1950 | 1951 | 1952 | 1950–52 | 1953 | 1954 | 1955 | 1953–55 | Total 1946–55 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Colonial Territories.**[1] | | | | | | | | | | |
| Decreases in Sterling Balances* .. .. | (−110) | (−141) | −173 | −100 | (−414) | −55 | −121 | −61 | −237 | (−761) |
| Decreases in Colonial Holdings of Non-U.K. Sterling Obligations* .. .. | n.a. | (−10) | (−26) | −22 | (−58) | −18 | −14 | 1 | −31 | n.a. |
| Other Capital Exports | n.a. | (34) | (37) | 92 | (163) | 111 | 113 | 65 | 289 | n.a. |
| TOTAL .. | n.a. | (−117) | (−162) | −30 | (−309) | 38 | −22 | 5 | 21 | n.a. |
| **Non-Colonial Sterling Area.** | | | | | | | | | | |
| Grants .. .. .. | −46 | — | — | — | — | — | — | — | — | −46 |
| Decreases in Sterling Balances* .. .. | (219) | (−240) | (114) | 212 | (86) | −197 | 6 | 135 | −56 | (249) |
| Other Capital Exports | n.a. | (157) | (153) | 15 | (325) | 25 | 124 | −62 | 87 | n.a. |
| TOTAL .. | n.a. | (−83) | (367) | 227 | (411) | −172 | 130 | 73 | 31 | n.a. |
| **Total Sterling Area.** | | | | | | | | | | |
| Grants .. .. .. | −46 | — | — | — | — | — | — | — | — | −46 |
| Decreases in Sterling Balances* .. .. | 109 | −381 | −59 | 112 | −328 | −252 | −115 | 74 | −293 | −512 |
| Decreases in Colonial Holdings of Non-U.K. Sterling Obligations* .. .. | 694 | (−10) | (−26) | −22 | (−58) | −18 | −14 | 1 | −31 | 1,469 |
| Other Capital Exports | | (191) | (190) | 107 | (488) | 136 | 237 | 3 | 376 | |
| **Total** .. | 757 | −200 | 105 | 197 | 102 | −134 | 108 | 78 | 52 | 911 |

Figures in brackets are partly estimated; * Increase − ; n.a.—not available.

Note (1) Excluding Hong Kong, Northern Rhodesia and Nyasaland throughout.

Sources: *U.K. Balance of Payments White Papers* (Cmd. 8976, 9430 and 9731), *Memorandum on the Sterling Assets of the British Colonies* (Colonial No. 298, 1953), *Colonial Office Annual Reports on the Colonial Territories* (Cmd. 9169, 9489, and 9769).

London market, which are included in their own totals of their sterling balances, though not in those of the United Kingdom.

### THE COLONIAL STERLING BALANCES

The two main causes of the remarkable increases in the colonial sterling balances during the past six years seem to have been, on the one hand, the large rises in the real, and still more in the money, incomes of those colonies which have enjoyed increased prices for their main exports ; and, on the other, the absence of local capital markets in which the swelling official and other reserve funds could be invested with safety and liquidity. These funds have therefore been invested very largely in London. Colonial Office estimates of the composition of these funds at the end of each of the past four years are shown in Table V.

TABLE V

*Ownership of Colonial Sterling Balances*(1)

| End of | 1952 | 1953 | 1954 | 1955 | Increase 1952–55 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Currency Board Holdings and Currency Funds with Crown Agents .. .. .. .. | 363 | 372 | 395 | 439 | 76 |
| Other Funds with Crown Agents— | | | | | |
| Special(2) .. .. .. .. .. | 189 | 201 | 232 | 238 | 49 |
| General(3) .. .. .. .. .. | 235 | 266 | 322 | 347 | 112 |
| Miscellaneous Known Official Funds(4) .. | 144 | 144 | 159 | 143 | −1 |
| Funds with U.K. Banks .. .. .. | 240 | 268 | 301 | 279 | 39 |
| TOTAL .. .. | 1,171 | 1,251 | 1,389 | 1,446 | 275 |

NOTES

(1) *Including* Hong Kong, *excluding* Northern Rhodesia and Nyasaland.

(2) Funds of Colonial Governments and other public bodies held under statute or earmarked for special purposes (e.g., sinking, savings banks, renewals and pension funds).

(3) Other Funds of Colonial Governments and other public bodies (e.g., general revenue balances, invested surpluses and general purpose reserve funds).

(4) Uganda Price Assistance Funds, sterling securities of West African Marketing Boards, etc.

Sources: *Colonial Office Annual Reports on the Colonial Territories* (Cmd. 9489 and 9769).

### EXPORTS OF CAPITAL TO THE COLONIES

The fact that the colonies have greatly increased their sterling balances in London since 1949 does not in itself prove that they have been net exporters of capital to the United Kingdom, for their exports of capital in the form of increasing sterling balances could have been more than offset by their imports of capital in other forms. No information is available in the United Kingdom balance of payments statistics which would enable us to separate " other capital exports " to the colonies from those to the rest of the sterling area. In the various reports issued by the Colonial Office, however, information is provided on the basis of which, by making some reasonably probable assumptions, it is possible to arrive at estimates

of "other capital exports" to the colonies for the years since 1949. These estimates must, however, exclude Hong Kong, whose balance of payments still seems to defy the official statisticians; Hong Kong is therefore included with the non-colonial sterling area. Further, as mentioned earlier, the Colonial Office figures of colonial sterling balances include holdings of colonial and dominion sterling obligations, while the United Kingdom figures cover only United Kingdom obligations. By comparing the two sets of figures it is possible to obtain estimates of colonial holdings of dominion and colonial sterling obligations. Since these were presumably purchased on the London market, they have been included in Table IV as a separate item. Some difficulty has been caused by the omission of Northern Rhodesia and Nyasaland from the colonial totals after 1951, and this has necessitated a small degree of estimation in the figures for 1950 and 1951. It should also be noted that the estimates of capital exports to the colonies exclude a substantial amount of grants made to various colonies by the United Kingdom Government on income account. These totalled about £140 millions in the six years from 1950 to 1955.

The start of our calculations is the Colonial Office's estimate of the collective balance of payments on income account of the colonies as a whole. Since a favourable balance of payments on income account is the same as an export of capital, and an unfavourable balance as an import of capital, we have estimates of the aggregate import or export of capital to or from the colonies. If we make the further assumption, which may not be very far from the truth, that (with the exception of the £7 millions loan made by the International Bank in 1955 to the East Africa High Commission) all colonial capital transactions are with the United Kingdom, it is possible to obtain, by subtraction, estimates of "other capital exports" from the United Kingdom to the colonies. By then subtracting these totals from those of the whole sterling area, we obtain estimates of total and "other" capital exports to the non-colonial sterling area.

These estimates are naturally subject to a very wide margin of error; it can only be hoped that they are sufficiently near the truth for their general implications not to be seriously misleading. In so far as they can be relied on, they indicate that, whereas in 1950–52, when prices of many colonial exports were very high, the colonies were large net exporters of capital to, and the rest of the sterling area large net importers of capital

from the United Kingdom, during the last three years " other capital exports " to the colonies have been at least as large as the increase in their sterling balances. Indeed the figures (though they cannot be relied upon within such fine limits) indicate that the colonies were small importers of capital on balance. It is probably very largely as the result of this change that exports of capital to the rest of the sterling area fell sharply to a negligible figure, and that an acute shortage of capital has developed in several countries in spite of efforts to import capital from elsewhere.

### COLONIAL CAPITAL TRANSFERS BY AREAS

In addition to its estimates for the colonies as a whole, the Colonial Office gives similar figures for five separate areas—West Africa, East Africa (including Aden), the West Indies, the Malayan Area, and Other Territories (excluding Hong Kong)—from which are derived the estimates shown in Table VI. Of these five areas, only two—West Africa and Malaya—seem at any time to have been substantial exporters of capital. The largest importer of capital during the past three years has been East Africa, where the rise in " other capital

TABLE VI

*U.K. Capital Exports to Colonial Territories*(1)

*By Areas.*

| | 1950 | 1951 | 1952 | 1950–52 | 1953 | 1954 | 1955 | 1953–55 |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **West Africa.** | | | | | | | | |
| Decrease in Sterling Balances(2)* .. | −56 | −77 | −29 | −162 | −38 | −88 | −19 | −145 |
| Other Capital Exports .. .. | 14 | 27 | −3 | 38 | 10 | 20 | 10 | 40 |
| TOTAL .. .. | −42 | −50 | −32 | −124 | −28 | −68 | −9 | −105 |
| **East Africa (including Aden).** | | | | | | | | |
| Decrease in Sterling Balances(2)* .. | (−29) | (−28) | (−37) | (−94) | −11 | 3 | 20 | 12 |
| Other Capital Exports .. .. | (35) | (23) | (47) | (105) | 64 | 44 | 20 | 128 |
| TOTAL .. .. | (6) | (−5) | 10 | (11) | 53 | 47 | 40 | 140 |
| **West Indies.** | | | | | | | | |
| Decrease in Sterling Balances(2)* .. | −11 | −3 | −9 | −23 | −17 | −16 | 4 | −29 |
| Other Capital Exports .. .. | 14 | 16 | 25 | 55 | 16 | 19 | 18 | 53 |
| TOTAL .. .. | 3 | 13 | 16 | 32 | −1 | 3 | 22 | 24 |
| **Malayan Area.** | | | | | | | | |
| Decrease in Sterling Balances(2)* .. | −57 | −88 | −31 | −176 | 1 | −23 | −59 | −81 |
| Other Capital Exports .. .. | −30 | −34 | 12 | −52 | 16 | 24 | 16 | 56 |
| TOTAL .. .. | −87 | −122 | −19 | −228 | 17 | 1 | −43 | −25 |
| **Other Territories.** | | | | | | | | |
| Decreases in Sterling Balances(2)* .. | 2 | −3 | −16 | −17 | −8 | −11 | −6 | −25 |
| Other Capital Exports .. .. | 1 | 5 | 11 | 17 | 5 | 6 | 1 | 12 |
| TOTAL .. .. | 3 | 2 | −5 | — | −3 | −5 | −5 | −13 |

Figures in brackets are partly estimated; * Increase −

NOTES

(1) Excluding Hong Kong, Northern Rhodesia and Nyasaland.

(2) Including holdings of non-U.K. sterling obligations.

Sources: As for Table IV.

exports" is attributed mainly to the cost of constructing the new oil refinery at Aden, which is included for statistical purposes in East Africa. The exports of capital from Malaya, which occurred mainly in the Korean war period, have clearly been greatly influenced by the price of rubber, while in West Africa a similarly dominant rôle is played by the price of cocoa.

The position of the United Kingdom as an exporter of capital to the non-dollar world has thus passed through three phases during the past ten years. In the first, up to 1949, it was able to act as an intermediary for passing on a large proportion of the grants and loans received from the United States, mainly to the sterling area and, it may be surmised, particularly to the non-colonial sterling area. In the second, up to the end of 1952, it was still able to act as an intermediary, though on a smaller scale, by passing the imports of capital received from the colonies in the form of rapidly rising sterling balances, partly back to the colonies in the form of long-term investments, but mainly to the non-colonial sterling area. In the third period, now ending, the rise in colonial sterling balances has been barely sufficient to cover long-term investment in the colonies, including Aden. It seems probable that we are now entering upon a fourth period, in which the rise in colonial sterling balances may slow down or cease altogether, and may provide little or nothing towards the export of long-term capital even to the colonies.

There seem to be two main reasons why we should expect the rise in colonial sterling balances to slow down, or even be reversed, in the near future. One is the fall in prices which has recently occurred in the main export products of the two areas whose sterling balances have risen most in the past—Malaya and West Africa. The other is that it is especially in these areas that the movement towards self-government is proceeding most rapidly. As colonies achieve self-government, it is reasonable to expect that resources which formerly went to swell the London balances will be increasingly diverted to local uses, either because they no longer reach the various funds at all or because the funds will be encouraged to invest at home, even though in a less liquid form, rather than in London. Indeed, it may well be that there will be a tendency to draw upon the London balances to finance local investment rather than to increase them further. The United Kingdom will therefore be unable to rely on this source for finance for other countries, including both the colonies which are not yet self-governing and the rest of the sterling area.

With the disappearance of its two major sources of imported capital, the United Kingdom will henceforward be obliged to rely much more completely on its own resources to provide capital for export. If it is to continue to replenish its inadequate gold reserves, to supply finance for the remaining colonies and for the rest of the sterling area, and to meet the continued realization of sterling assets by the non-sterling world, it will need a very much larger surplus in its balance of payments on income account than it has managed to achieve at any time since the war—or indeed since 1913. The government has put the necessary annual surplus at from £300 to £350 millions, or say £1,000 millions over the next three years. To quadruple the surplus achieved between 1953 and 1955 will be no easy task.

## II

### THE UNITED KINGDOM AS AN OWNER OF FOREIGN INVESTMENTS

A partial light is thrown on changes in the United Kingdom's foreign investments in the estimates, published by the Bank of England, of *United Kingdom Overseas Investments*. These estimates, first published in 1950 for the years 1938 to 1948, and subsequently annually, provide a continuation of those published by Lord Kindersley in the *Economic Journal* before the war. They cover that part of the country's overseas investments which consists of " the overseas investments of U.K. residents through the medium of securities quoted on, unofficially dealt in or otherwise known to the London Stock Exchange," and provide estimates not only of the nominal values of the securities held at the end of each year, but also of the interest and dividends received from them during the year, the nominal values of the securities bought, sold or redeemed, and the cash paid or received for them by British residents. The securities are classified by type of security, by type of industry, and by countries. These elaborate and detailed estimates obviously take a long time to make, for the latest figures available, published in 1955, refer only to 1953.

It is difficult to say how large a proportion of total British foreign investments is covered by these figures. The coverage is obviously less wide than that covered by the item " interest, profits and dividends " received from overseas given in the balance of payments White Papers, which totalled £285 millions in 1953, as compared with the £160 millions in the Bank of

England estimates. The balance of payments figures, however, probably include amounts not ultimately due to British residents, which are passed on to overseas owners and appear also in the payments figures, while the Bank of England estimates are net. It is probable, therefore, that these estimates cover the greater part—perhaps two-thirds or more—of the country's total overseas assets. If so, they make it clear that British residents have done a good deal better since the war as owners of overseas assets than they have as suppliers of foreign capital.

### SALES AND PURCHASES OF OVERSEAS SECURITIES

During the war, the United Kingdom had to realize roughly a third of its total holdings of overseas securities, the cash proceeds of which amounted to about £950 millions. The process of selling out continued for several years after the war, and during the period 1946–49 net sales and redemptions realized a further £290 millions, largely from the sale and repayment of securities in Argentina and other countries in South America, but also in Canada, Australia, and New Zealand. It was not until the period 1950–52 that the net realizations ceased, and not until 1953 that there was any appreciable net new investment in overseas securities.

The classification by countries and areas in the Bank of England's estimates is different from that in the balance of payments statistics, but in Table VII an attempt has been made

TABLE VII

*United Kingdom Overseas Investments*

*Net Cash Receipts or Payments from the Sale, Redemption or Purchase of Overseas Securities.*

(U.K. Receipts —, U.K. Payments +)

| | 1939–45 | 1946–49 | 1950–52 | 1953 | Total 1946–53 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Dollar Area** | −398 | −66 | −4 | +18 | −52 |
| **Other Non-Sterling Area** | | | | | |
| Other Western Hemisphere .. | −59 | −188 | −43 | −8 | −239 |
| O.E.E.C. Countries .. .. | −6 | −8 | — | −1 | −9 |
| Other .. .. .. .. | −20 | −14 | −3 | −3 | −20 |
| TOTAL .. .. | −85 | −210 | −46 | −12 | −268 |
| **Sterling Area** | | | | | |
| Colonies .. .. .. | −4 | +7 | +30 | +9 | +46 |
| Other .. .. .. .. | −470 | −50 | +18 | +37 | +5 |
| TOTAL .. .. | −474 | −43 | +48 | +46 | +51 |
| Unclassifiable .. .. .. | +3 | +29 | +10 | +19 | +58 |
| **Grand Total** .. | **−954** | **−290** | **+8** | **+71** | **−211** |

to regroup them in a form which would make them comparable with the estimates of imports and exports of capital given in Tables I to IV. This comparison makes it clear that, with the exception of "Other Western Hemisphere" countries, especially in 1946–49, and sterling area countries other than the colonies in 1953, the cash received or paid as the result of the purchase, sale or redemption of the securities of overseas public authorities and of companies operating overseas represented only a very minor part of the collection of transactions called in Tables I to IV "Other Capital Imports" and "Other Capital Exports."

## INCOME FROM FOREIGN INVESTMENTS

The effect on annual income of the heavy sales of overseas securities during the war is shown in Table VIII. Income from fixed interest securities fell between 1938 and 1945 by £28 millions, from £77 millions to £49 millions, while dividends on shares fell by £19 millions, from £78 millions to £59 millions. The fall in fixed interest receipts continued in the following years, the income from them falling to £28 millions in 1949, remaining at that level in 1952, and recovering to £37 millions only in 1953 as the result of the resumption of interest payments by Germany and Japan. Share dividends, on the other hand, rose continuously, reaching £88 millions in 1949 and £126 millions in 1952, and though they fell back slightly in 1953, it seems probable that the rise has since been resumed. Thus in spite of net sales and redemptions realizing nearly £1,200 millions between 1939 and 1953, total income from

TABLE VIII

*United Kingdom Income from Overseas Investments*

| | 1938 | | 1945 | | 1949 | | 1952 | | 1953 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | | £m | | £m | | £m | | £m | |
| **Interest on Government and Municipal Loans—** | | | | | | | | | | |
| Commonwealth .. .. | 44 | | 27 | | 18 | | 17 | | 17 | |
| Other .. .. .. | 11 | 55 | 5 | 32 | 3 | 21 | 4 | 21 | 11 | 28 |
| **Interest on Company Loans—** | | | | | | | | | | |
| Commonwealth .. .. | 12 | | 7 | | 5 | | 4 | | 4 | |
| Other .. .. .. | 10 | 22 | 10 | 17 | 2 | 7 | 3 | 7 | 5 | 9 |
| **Total Loan Interest** .. .. | | 77 | | 49 | | 28 | | 28 | | 37 |
| **Dividends on Shares—** | | | | | | | | | | |
| Commonwealth .. .. | | 46 | | 33 | | 52 | | 71 | | 69 |
| Other .. .. .. | | 32 | | 26 | | 36 | | 55 | | 54 |
| **Total Dividends** .. .. .. | | 78 | | 59 | | 88 | | 126 | | 123 |
| **Total Income from Overseas Investments** .. .. .. | | **155** | | **108** | | **116** | | **154** | | **160** |

overseas securities had by 1953 more than recovered its 1938 level. It was, however, very differently constituted, for whereas in 1938 almost exactly half consisted of interest on loans, either to public authorities or to companies, by 1952 the proportion derived from loans was under 20 per cent. of the total, rising again to 23 per cent. in 1953 but probably falling again since. The country's much greater dependence for its foreign investment income on dividends on shares provides it with a considerable hedge against further losses of real income in case of a further rise in world prices, but renders its balance of payments even more vulnerable to the effects of a world depression, especially since more than half its total dividends comes from oil, mines (other than gold) and plantation companies.

### CAPITAL VALUES OF OVERSEAS SECURITIES

The Bank of England does not attempt to make any estimates of the market values of overseas securities owned by United Kingdom residents, but contents itself with giving figures for nominal values, which, of course, have little practical significance, especially for ordinary shares. The Bank estimates that aggregate nominal capital fell from £3,545 millions in 1938 to £2,417 millions in 1945, fell further to a minimum of £1,967 millions in 1948, and thereafter recovered only very slightly to £1,982 millions in 1952 and £2,013 millions in 1953. But clearly a rise in aggregate income of nearly 50 per cent. since

TABLE IX

*Estimated Aggregate Values of U.K. Overseas Investments.*

| | 1938 | 1945 | 1949 | 1952 | 1953 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **A. Nominal Values** | | | | | |
| Government and Municipal Loans .. .. | 1,521 | 904 | 795 | 790 | 798 |
| Company Loans .. .. .. .. | 734 | 445 | 281 | 245 | 260 |
| TOTAL, Fixed Interest Securities .. | 2,255 | 1,349 | 1,076 | 1,035 | 1,058 |
| Shares .. .. .. .. .. .. | 1,290 | 1,068 | 963 | 947 | 955 |
| TOTAL, Overseas Securities .. .. | 3,545 | 2,417 | 2,039 | 1,982 | 2,013 |
| **B. Income Capitalized at Constant Interest Rates** | | | | | |
| Government and Municipal Loans .. .. | 1,325 | 780 | 560 | 500 | 640 |
| Company Loans .. .. .. .. | 415 | 310 | 135 | 140 | 165 |
| TOTAL, Fixed Interest Securities .. | 1,740 | 1,090 | 695 | 640 | 805 |
| Shares .. .. .. .. .. .. | 1,275 | 970 | 1,445 | 2,060 | 2,035 |
| TOTAL, Overseas Securities .. .. | 3,015 | 2,060 | 2,140 | 2,700 | 2,840 |
| **C. Income Capitalized at Fluctuating Interest Rates** | | | | | |
| Government and Municipal Loans .. .. | 1,490 | 1,030 | 585 | 430 | 570 |
| Company Loans .. .. .. .. | 460 | 375 | 150 | 120 | 150 |
| TOTAL, Fixed Interest Securities .. | 1,950 | 1,405 | 735 | 550 | 720 |
| Shares .. .. .. .. .. .. | 1,275 | 1,230 | 1,445 | 1,750 | 1,860 |
| TOTAL, Overseas Securities .. .. | 3,225 | 2,635 | 2,180 | 2,300 | 2,580 |

1945 cannot have been without its effect on capital values, and in Table IX an attempt is made to give some idea of capital values by capitalizing the income from the different classes of securities at what seem to be appropriate rates. In Table IXB constant rates are used, varying from 4 per cent. for the loans of Commonwealth governments and municipalities to 6 per cent. for most company shares; while in Table IXC the rates used for capitalizing the income fluctuate roughly in accordance with changes on the London market, varying for Commonwealth governments and municipalities between 3 per cent. in 1945 and 4¾ per cent. in 1952, and for most shares between 5 per cent. in 1945 and 7 per cent. in 1952. (The constant rates used in Table IXB are approximately the averages of the fluctuating rates used in IXC.) The purpose of publishing the two separate tables is to make it possible for readers to distinguish changes due to changes in income yields from changes due to fluctuations in interest rates on the London market. The Bank of England's estimates of nominal values are given, for purposes of comparison, in Table IXA.

The results of these calculations obviously give only the very roughest idea of the changes in the true market values, to ascertain which would clearly take more labour than the Bank of England has yet felt justified in devoting to the purpose. A particularly likely source of error is that these calculations are applied to the actual current yields, while market prices are determined by many factors besides current income yields. For instance, where fixed interest securities are redeemable in the fairly near future, the yield to maturity, upon which market prices are based, is at present often far above (and in other periods may sometimes be below) the flat yield, which necessarily forms the basis of calculation here. This would tend to cause an undervaluation of fixed interest securities in times of high interest rates and an overvaluation in times of low interest rates. Again, where there are expectations of a future default on, or resumption of interest payments on, fixed interest securities, or of a future increase or decrease in dividends on shares, market prices may change well before interest or dividend payments alter. Nevertheless, it is hoped that the capitalized values calculated here may be sufficiently relevant to give some idea of the changes in capital values of British overseas investments since the war.

Although by 1953 the total income from overseas investments had risen above its pre-war level, it seems clear that, even in the absence of changes in interest rates, the aggregate capital value of the investments would still have been below

the pre-war level, since a much higher proportion of the income was derived from relatively high-yielding shares and a much lower proportion from relatively low-yielding loans. Even so, in the absence of a rise in interest rates, it seems likely that by 1953 aggregate capital values would have recovered by far the greater part of the fall due to earlier sales and redemptions. The rise in interest rates has, however, probably deprived owners of something like half of the capital appreciation which they would otherwise have enjoyed. As Table VII shows, the net cash proceeds of overseas securities sold or redeemed between 1939 and 1953 is put at £1,165 millions. If there had been no capital appreciation or depreciation on the remaining securities, this is also the amount by which aggregate capital values would have declined. In fact, Table IXc puts the decline in value, after allowing for changes in interest rates, at only £645 millions. This would make the capital appreciation on the remaining securities something like £500 millions, as against the £1,000 millions which would have been enjoyed if interest rates had remained unchanged throughout. Since 1953 interest rates have again risen, but it may be hoped that part or all of the loss of market value due to this cause has been offset by a further rise in overseas investment income.

## CONCLUSIONS

The general impression left by this examination of the United Kingdom's record since the war, both as an exporter of capital and as an owner of foreign investments, is that, in ten years, it has made little progress either towards being able to supply the urgent capital needs of the rest of the Commonwealth or towards restoring its own international financial position. In spite of an unprecedentedly rapid rise in production, in no single year, still less in any series of years, has it had a surplus of saving over fixed investment at home sufficiently large to provide both for an increase in stocks commensurate with the rise in output and a favourable balance of payments commensurate with the capital needs of those developing countries which traditionally look to it for finance; such temporary improvements as have occurred in its balance of payments have been achieved only at the expense of decreases or inadequate increases in stocks, and have disappeared as soon as stocks have had to be replenished.

Until recently, the United Kingdom's meagre exports of long-term capital out of its own resources have been supplemented by the re-export of capital supplied from overseas, until 1950 mainly in the form of gifts and loans from the United

States and Canada, and more recently in the form of the rising sterling balances of the colonies. Now that the second of these forms of capital imports is also disappearing, the United Kingdom will in future be dependent on its own balance of payments surplus for supplying even the long-term capital which it is morally bound to provide for the colonies.

Such improvement as has taken place in recent years in the United Kingdom's own international financial position has been due mainly to the capital appreciation in its shares in overseas companies, which now constitute some three-quarters of its foreign investments. Between 1945 and 1953 these are estimated to have risen in value by perhaps £600 millions, thus making good perhaps nearly half the fall in the value of its overseas fixed interest securities, caused partly by war-time and post-war sales and partly by higher interest rates. If, however, we look, not merely at foreign assets but at the net margin between foreign assets and foreign liabilities, we find that the capital appreciation on overseas shares offsets only a very small fraction of the net worsening in the whole international financial position. In addition to the net loss of perhaps £1,200 millions in the value of overseas fixed interest securities, the excess of short-term sterling liabilities to overseas creditors over the value of the gold and dollar reserves has risen from nothing in 1938 to some £3,000 millions in 1945 and hardly less today, while in addition the long-term dollar debt, incurred mainly after the war, stands at over £2,000 millions. As the result of these changes, a pre-war surplus of foreign assets over foreign liabilities of perhaps £4,000 millions has been converted into a deficit of perhaps £1,000 millions or more. In the ten years which have elapsed since the war the country has made little progress even towards emerging from its unaccustomed position as a net international debtor, still less towards starting the task of rebuilding the great net surplus of foreign assets which earlier generations accumulated in the century before the first world war. It is urgently necessary that the United Kingdom should henceforward restrain its home demand sufficiently both to supply its share of the resources so urgently needed by the developing countries of the Commonwealth and at the same time to begin to restore the international financial position which has been lost, partly as the result of two world wars, but partly also as the result of policies pursued in the years of peace succeeding them.

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# Some Reflections on Agricultural Policy

*By E. F. Nash*

## I

THE ten years that have elapsed since the close of the second world war have been about as full of developments in the field of agricultural policy as the whole century which preceded the outbreak of the first. The student of agricultural affairs has no special grievance in this respect since the same could be said of every other aspect of economic policy. But it is perhaps as well to begin with a reminder that the subject of this article is a large one and that neither the space available nor the qualifications of the author are adequate for the treatment of more than a few of its leading issues.

Post-war agricultural policy is of course largely founded on the Agriculture Act of 1947. That Act, however, was not in itself a major piece of original legislative thinking ; for the most part it merely gave permanent and statutory form to changes in policy and practice made during the war by administrative action and by regulations under emergency powers. The most important innovations made during the war, and continued since then under the 1947 legislation, were two-fold : a fundamental change in the law of land tenure and the acceptance by the government of the principle of " guaranteed prices and assured markets " for the major agricultural products. These provisions created the framework for the agricultural policy of subsequent years. This policy has itself reached two major turning points, the first in 1947 when the programme for the expansion of home agricultural output was launched in response to the first of the successive post-war balance of payments crises ; and the second in 1953 and the following years, when the war-time apparatus of control and rationing was dismantled and means had to be devised of continuing the guarantee policy of the 1947 Act under the conditions of free markets.

The purpose of this artiole is not to chronicle these events but to comment on the major economic changes which agriculture has undergone during this period and to discuss some of the major economic issues arising from them. Any such discussion must begin by considering the income of the industry and its performance in terms of output produced and resources consumed.

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## II

Agricultural incomes (together with those earned in forestry and fishing) have in recent years amounted to about 5 per cent. of the total gross domestic product, a share comparable with the proportion of the manpower occupied (in Great Britain) in these industries in 1951. Though the share of agriculture in the national income has fallen somewhat since the immediate post-war period, it remains distinctly greater than before the war, when the average money income per head of those engaged in agriculture was probably about one-third lower than the average for the whole occupied population.

### Table I

*Income produced in Agriculture, Forestry and Fishing**

| | At Current Cost | | At 1948 Cost |
|---|---|---|---|
| | £m. | % of Total | % of Total |
| 1937–39 | .. | *3·8* | .. |
| 1948 | 642 | *6·3* | *6·3* |
| 1952 | 772 | *5·6* | *6·5* |
| 1953 | 784 | *5·4* | *6·2* |
| 1954 | 760 | *4·9* | *6·0* |

* Gross domestic product at factor cost.

Sources: 1948–54, *National Income and Expenditure*, 1955; 1937–39, estimate by ECE/FAO, *Output and Expenses of Agriculture in Some European Countries*, 1953.

The distribution of the income arising in agriculture among the participants in the industry is indicated in Table II overleaf. (These figures are based in the main on the net income calculation of the Ministry of Agriculture and are not directly comparable with the figures quoted in Table I.) Farmers' incomes, though lower than in 1953–54, are expected in 1955–56 to be about 5½ times as high as before the war in money terms, and the aggregate income of farm workers, for an employed labour force perhaps 3 per cent. below the pre-war size, is forecast at about 4½ times the pre-war total.

The composite total for rent and interest, however, is less than twice its pre-war amount. The published official estimates of agricultural income group rent with interest payments on merchants' and bankers' advances; the figures given in row 4 of the Table are unofficial estimates. According to them the aggregate of agricultural rents and rental values, for an approximately unchanged agricultural area, increased only by 17 per cent. between 1937–39 and 1948–49, and even by 1953–54 had

risen by less than 50 per cent. Since 1953–54 agricultural produce was worth on the average just over three times as much as before the war, the amount of produce needed to pay for the use of an acre of land had fallen by more than half. This extraordinary result is due to the comparative fixity of rents during a period of rapid inflation, a fixity to which the tenure provisions of the 1947 Act have in no small measure contributed.

The rental value of land, moreover, represents the gross and not the net income of the landowner. Landlords' maintenance expenditure, estimated on the basis of enquiries made by the Country Landowners' Association, amounted to £19 millions in 1938 and to £36 millions in 1953; thus the net income from ownership of agricultural land in 1953–54 was no larger in money terms than before the war. The 1953 maintenance expenditure, however, represented a much smaller amount of "real resources" than in 1938; according to the estimates of Cheveley and Price the 1938 expenditure of £19 millions would have cost £55 millions at 1953 prices. It is not surprising that landlords should have allowed the volume of maintenance work to fall; if they had kept it at its pre-war level practically nothing would have remained to them in 1953–54 as net income. This is the major anomaly in the income distribution figures, and it raises important issues to which some reference is made in later paragraphs.

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## TABLE II

*Distribution of Agricultural Income*

| | Pre-war | 1948–49 | 1953–54 | 1954–55 | 1955–56 (forecast) |
|---|---|---|---|---|---|
| | £m. | £m. | £m. | £m. | £m. |
| 1. Farmers .. .. .. | 55 | 292 | 325 | 285½ | 299¾ |
| 2. Labour .. .. .. | 66 | 236¼ | 276 | 275¼ | 290 |
| 3. Rent and Interest (*a*) .. | 43 | 53¼ | 74 | 78½ | 81¼ |
| 4. Rent (*a*) .. .. .. | 38½ | 45 | 55½ | .. | .. |
| 5. Landlords' maintenance (*a*) | 19 | .. | 36 | .. | .. |
| 6. Net Income from Land (*a*) | 19½ | .. | 19½ | .. | .. |

(*a*) Including imputed rentals and expenditure of owner-occupiers.

Sources: 1–3, Ministry of Agriculture, Fisheries & Food; 6, Cheveley and Price, *Capital in U.K. Agriculture*, I.C.I., 1955.

## III

To turn from money to quantitative measurement of the industry's performance, Table III gives a comparison of the output and production of recent years with that of 1947–49 and of the pre-war period.[1] The column of index numbers representing pre-war output and production reflects the large changes which occurred in the composition of the industry's

### Table III

*Agricultural Production and Output, 1937–39 to 1955–56*

| | Value of Output, 1947–49 | Index Numbers of Production, 1947–49 = 100 | | |
|---|---|---|---|---|
| | | Pre-war | 1953–54 | 1955–56 (preliminary) |
| | £m. | % | % | % |
| Wheat .. .. .. | 31·5 | *82* | *132* | *129* |
| Barley .. .. .. .. | 29·8 | *42* | *138* | *161* |
| Oats .. .. .. .. | 6·2 | *71* | *103* | *99* |
| Potatoes .. .. .. | 66·2 | *50* | *84* | *63* |
| Sugar beet .. .. .. | 18·7 | *75* | *145* | *124* |
| | | Index Numbers of Output, 1947–49 = 100 | | |
| All farm crops .. .. | 168·1 | *64* | *101* | *91* |
| Beef and veal .. .. .. | 75·4 | *117* | *131* | *144* |
| Mutton and lamb .. .. | 29·4 | *160* | *140* | *148* |
| Pigmeat .. .. .. | 34·0 | *214* | *289* | *310* |
| Milk .. .. .. .. | 225·9 | *81* | *120* | *121* |
| Eggs .. .. .. .. | 70·7 | *118* | *164* | *179* |
| Other livestock products .. | 29·1 | *118* | *116* | .. |
| All livestock products .. | 464·6 | *109* | *142* | *150* |
| Fruit, vegetables and flowers | 116·5 | *70* | *101* | .. |
| Other output (inc. valuation change) .. .. .. | 33·8 | .. | .. | .. |
| Total Output .. .. .. | 783·0 | *91* | *124* | *132* |

[1] A word of explanation is needed regarding the index numbers of crop production and output. One of the most unwelcome consequences of the return to freer markets for agricultural produce has been a breach in the continuity of the official output estimates for cereal crops. From 1953–54 onwards these now represent the gross sales of grain by farmers, inclusive of the quantities subsequently returning to farms as purchased feed, which are excluded from the estimates for previous years. In order to give a comparable set of figures, the crop index numbers in the upper part of the table are therefore based throughout on the official estimates of total production. In calculating the index numbers in the lower part of the table rough corrections have been made to the official output estimates of cereals in 1953–54 and 1955–56 in order to reduce them to the same basis as the earlier figures, but these corrections are necessarily subject to a margin of error. It is much to be hoped that the difficulties which have hitherto prevented the publication of a comparable series of official output estimates will be overcome in the near future.

product during the war period. Production of all the major crops was greatly increased, so that the total crop output in 1947–49 was over 50 per cent. greater than before the war; but a heavy fall occurred in livestock production, which affected every item of livestock output except milk. The output of milk rose during these ten years by just under a quarter, while the output of all other livestock products was reduced on the average by rather more than a quarter.

Some measure of the changes brought about since 1947–49 under the stimulus of the post-war expansion programme is given by the figures for 1953–54 and 1955–56. Livestock output has grown rapidly and for all the major items except mutton and lamb is now well above pre-war figures. Nearly 20 per cent. more meat is now being produced at home than before the war, nearly 50 per cent. more milk and over 50 per cent. more eggs. It is clear, nevertheless, that the post-war expansion of livestock production has not been achieved by reversing the war-time increase in crop production; on the contrary, the production of most of the major crops has continued to increase, the only important exception being potatoes, for which consumers' demand, though left unsatisfied by the short crop of 1955, cannot be expected to remain at the inflated levels to which it was raised during and after the war by the shortage of other foods.

How has the increase been achieved, and how is its cost to be assessed? On the one hand, the inducement to expansion has been provided by a generous price and subsidy policy; on the other hand, its technical possibility has depended on advances in the methods of production, more especially of crop production, on the application of greatly increased quantities of fertilizers and on a rapid growth of the use of power-driven machinery.

The greater productivity which has been given to the land is illustrated by the increase in crop yields. The figures opposite show that a greater relative improvement has occurred in yields per acre during the seventeen years separating the late 'thirties from the early 'fifties than was achieved during the preceding forty years. But perhaps the most obvious indication of the improved aggregate productivity which the industry has achieved since the pre-war period is given by the fact that the improvement in livestock production shown in the figures for 1953–54 in Table III was obtained with less than two-thirds the pre-war tonnage of imported feedingstuffs. The enlarged product of the land, together with the greater efficiency with

*Relative Increases in Average Yields per Acre*

| | 1886–95 to 1928–37 (England and Wales) | 1934–38 to 1952–55 (United Kingdom) |
|---|---|---|
| | % | % |
| Wheat .. .. | 11 | 30 |
| Barley .. .. | 4 | 25 |
| Oats .. .. | 15 | 18 |
| Potatoes .. .. | 10 | 15 |
| Sugar beet .. | — | 20 |

which it was used, sufficed not only to supply some 50–60 per cent. more crops for off-farm consumption but at the same time to replace nearly 3 million tons of feed imports. And this was achieved with an agricultural labour force no larger in numbers than before the war.

The economic assessment of these results, however, depends upon a consideration of the values of the resources used up in bringing them about. These resources are of two main kinds; first, agricultural products purchased from abroad and, secondly, goods and services of non-agricultural origin purchased by agriculture from other industries. As Table IV overleaf shows, the relative importance of these two groups in the total has changed considerably since the pre-war years. The former group, consisting mainly of feedingstuffs, has dropped from two-thirds to just under half the total. This change is the combined result of the rapid increase in machinery expenses, due to mechanization, and the fall in the consumption of imported feedingstuffs.[1]

By comparison with other European countries the ratio of operating expenses to total output in British agriculture—just over 50 per cent. in 1953–54—is exceptionally high. This is due partly to the large volume of non-agricultural goods and services which now contribute to British agricultural output, but mainly to British agriculture's heavy bill for purchased feed, which is relatively much higher than in any other European country. But the economic circumstances of British agriculture, of course, are also different from those of other countries.

[1] The expenses are entered at the cost to farmers (net of subsidies); the figures as given do not, therefore, directly represent the value of the net purchases of British agriculture from overseas agriculture and from other sectors of the economy, since the cost to farmers of purchased agricultural products will, of course, include a considerable element of transport, distributing and processing margins.

## Table IV

*Expenses of Agricultural Production*

| | Value | | | Index of Value at constant prices | | |
|---|---|---|---|---|---|---|
| | Pre-war | 1947–49 | 1953–54 | Pre-war | 1947–49 | 1953–54 |
| | £m. | £m. | £m. | % | % | % |
| *Purchases of Agricultural Products:* | | | | | | |
| Feedingstuffs .. | 73 | 52½ | 228(*a*) | *271* | *100* | *228* |
| Livestock .. | 15 | 22 | 38 | *144* | *100* | *108* |
| Seed .. .. | 4 | 20 | 26½ | *41* | *100* | *111* |
| Total .. | 92 | 94½ | 292½ | *194* | *100* | *176* |
| *Purchases of non-Agricultural goods and services:* | | | | | | |
| Machinery .. | 23 | 101 | 188½ | *53* | *100* | *129* |
| Fertilizers .. | 8 | 35 | 52½(*b*) | *47* | *100* | *164* |
| Other .. | 14 | 41 | 66 | *80* | *100* | *119* |
| Total .. | 45 | 177 | 307 | *55* | *100* | *124* |
| Total Expenses | 137 | 271½ | 599½ | *103* | *100* | *142* |

(*a*) Official estimate of £270m. adjusted to exclude selling value of home-grown grain purchased for feed.

(*b*) Official estimate of £65½m. corrected by exclusion of fertilizer subsidy, figures for earlier years representing net cost to farmers.

(Source of value estimates at current prices: Ministry of Agriculture, Fisheries and Food.)

A measure of the quantitative change in the various means of production used in British agriculture can be obtained if the money value figures for the different items are corrected for changes in prices. The index numbers on the right of the table show the results of such an attempt. They suggest that, while in 1953–54 the volume of purchases of agricultural products had risen by 76 per cent. since 1947–49 (during which period the tonnage of imported feed consumed doubled), it still remained below the pre-war volume in total. On the other hand, the use of fertilizers was 3½ times as great as before the war, and the consumption of goods and services representing the operating costs of farm machinery was nearly 2½ times as great.

The percentage increase in aggregate expenses between 1947–49 and 1953–54, measured in money of constant purchasing power, exceeded that in total output similarly measured. Even so, the *absolute* increase in output exceeded the absolute increase in costs, so that net output at constant prices rose,

according to this measurement, by about 12 per cent.[1] Since the number of man-years worked in agriculture has probably declined since 1947–49 by about 10 per cent., and the number of man-hours by about 12 per cent., the average net output per man per year appears to have risen since 1947–49 by about 25 per cent. and the net output per man per hour by about 28 per cent.

To sum up, according to this measurement over the whole period since the outbreak of the war, it appears that both total net output and net output per man-year have increased by about a third, while net output per man-hour has risen by 45–50 per cent.

## IV

The calculations just given have been made on the basis of the prices actually received and paid by farmers in 1947–49. In a free market (an assumption admittedly not fulfilled in 1947–49, when feedingstuffs were rationed) such prices represent the value or cost of the goods and services in question to the farmers, and their use in such a calculation enables some assessment to be made of the effectiveness of the farmer's productive effort in response to the market conditions confronting him. But both farm prices and costs are so much influenced by subsidies, tariffs, import controls and other forms of government action that they do not necessarily represent at all accurately what the output produced or the resources consumed were really worth to the country. For this reason, it cannot be assumed that an increase in the farmer's efficiency in producing income for himself necessarily implies a corresponding improvement in the use made by the country as a whole of its opportunities and resources. In order to investigate this latter point allowance must be made for the effects of government influence on prices ; the market conditions to be considered from this point of view being those facing the country in its international dealings, and not those which its government chooses, for good reasons or bad, to establish within its own boundaries.

Unfortunately no such allowance can be made with any claim to accuracy, since no-one can predict what would happen to supplies and prices if all subsidies were withdrawn and perfectly free markets for imports were restored. What can be

[1] This result is obviously greatly affected by the magnitude of the revalued bill for feedingstuffs, much the largest item on the expenses side, and in view of the adjustment necessary in reaching the estimate for the volume of feed input it should be treated with due caution.

done is to calculate the difference between the prices actually paid to the farmers and the existing " import-parity " prices, that is the prices which the domestic output would fetch if sold in free competition with imports assumed to remain at something like the actual current import levels.

The first column of Table V gives the results of such a calculation for the chief items of domestic output in 1955–56. The ratio between the domestic and the import-parity price varies from product to product, but on the average of those listed the home price works out at between 25 and 30 per cent. above the import-parity price.[1] The addition to import-parity prices made by the various measures of government price support applied to these commodities, together with the subsidies covering certain of the farmer's expenses, amounts to an aggregate value of about £290 millions a year. The loss of this sum, if it fell on farmers, would practically wipe out their net income, and it would reduce the total (factor) income of agriculture—of the order of £700 millions in recent years if

TABLE V

*Price and Cost Assistance to Agriculture, 1955–56*

| | Expected price to farmer, 1955–56 as % of import-parity price | Price deficiency or support payments (*a*) | Production grants and subsidies (*a*) | Estimated total price support (*b*) |
|---|---|---|---|---|
| | % | £m. | £m. | £m. |
| Wheat .. .. | *135* | 25·4 | — | 25½ |
| Barley .. .. | *122* | 11·2 | — | 11 |
| Sugar beet .. | *152* | — | — | 9 |
| Potatoes .. .. | .. | — | — | 1 |
| Beef .. .. | *100* | 0·4 | 12·0 | 17½ |
| Mutton and lamb .. | *110* | 5·1 | | |
| Pigmeat .. .. | *137* | 47·5 | — | 47½ |
| Milk .. .. | *143* | — | 10·6 | 114 |
| Eggs .. .. | *123* | 18·6 | — | 27½ |

| | |
|---|---|
| Total price assistance .. .. .. .. .. .. .. | 253 |
| Subsidies to costs (fertilizers, lime and ploughing) .. .. | 30 (*a*) |
| Land improvement grants .. .. .. .. .. .. | 6 (*a*) |
| Administrative overheads .. .. .. .. .. .. | 5½(*a*) |
| TOTAL .. .. .. .. .. .. .. .. | 294½ |

(*a*) Based on details of subsidies given in *Hansard*, 9th Feb., 1956, Col. 203.

(*b*) Allowing for effects of measures such as tariffs, import control, monopoly marketing powers, etc.

[1] This calculation is a revision, relating to a more recent period, of that given in my paper printed in the *Journal of Agricultural Economics*, Vol. XI, No. 3, which contains some discussion of the methods used and the problems encountered in making it.

depreciation is added back—by nearly half. In other words, the net output per head of those occupied in the industry, which at domestic prices is perhaps within 10–15 per cent. of the £676 per head recorded for manufacturing industries in 1951, would at import-parity prices be reduced to only a little over 50 per cent. of the latter figure.

That a wide difference should exist between net output per head in agriculture and in manufacturing industry is not a new or surprising discovery; the present result is no more than a confirmation that recent changes have not upset broadly similar conclusions already established for previous periods by older data. Under free trade conditions the disparity in net output showed itself in the low money incomes of farmers and farm workers; today, the difference in money incomes has been greatly lessened but the disparity in net output still persists, though it is now concealed by a high internal price level for agricultural products.

The difference in net output between the two groups might of course theoretically be eliminated by a sufficient change in the relative price levels for agricultural and manufactured products, and it must have been affected by the change which has occurred in such relative price levels since the pre-war years. Judging, however, by the change in British terms of trade from 1938 to 1954, agricultural products have appreciated relatively to manufactured goods by only about 20 per cent., while for 1953 the appreciation was only 14 per cent. Relative price changes of this order of magnitude are obviously quite insufficient to affect the net output ratio very greatly.

But the fact that net output per head in British agriculture at recent world price levels is only perhaps 55 per cent. of that in British manufacturing industry does *not* of course mean that resources at present producing £55 millions worth of food from home agriculture could be made to produce goods which would buy £100 millions worth of imported food by transferring them from agriculture to export industries. Any such transfer would increase the country's demand for imports and the supply of its exports; this would raise the prices of our food imports and reduce those of our manufactured exports, thus worsening the terms of trade and raising the real price paid by the country not only for the additional food imports but for those which it is already in any case obtaining. How great this effect would be can only be judged on the basis of assumptions about the effective elasticity of world demand for our exports—by how much, that is, the purchasing power of our exports would be

likely to diminish if their volume were increased. This elasticity has been the subject of controversy recently, to which this article can make no useful contribution. But it may be mentioned that Professor Robinson and Mr. Marris have shown —on the basis of assumptions as to the relevant elasticities which are, perhaps, not unreasonable—that the general policy of agricultural expansion may be capable of justification on the ground of its contribution to import-saving, even if the potential productivity in export industries of the resources transferred to agriculture is considerably more than twice their productivity, at existing price levels, in agriculture.[1]

Wider issues are of course raised by this policy than could be settled by an appeal to economic facts, even if these facts were established with complete certainty. A country which employs protectionist policies to its own advantage does so at the expense of other countries, and should therefore consider not only the danger of retaliation but the general principle of relying exclusively on considerations of national advantage in economic matters. In the case of post-war Britain, the expansion of agriculture has almost certainly brought some economic gain, and a gain which, in the general economic situation facing the country, she could hardly afford not to pursue. Apart from the direct gain in imports saved, it must also have contributed to our economic stability by rendering us less vulnerable to the effects of fluctuations in our precarious balance of payments.

## V

But a generally favourable verdict on the policy as a whole does not, all the same, necessarily imply that all its details have been right or that it has not been pushed too far. If the average net output per person in agriculture is about half that in manufacturing industry, the marginal net output will almost certainly be lower and quite possibly much lower. Moreover, the arguments that can be used to justify a general raising of the farm price level do not justify a selective raising of the price level for individual products. On the contrary, unless some very clear reason can be shown, the ratio between the farm and the import-parity price should in general be the same for all products if wasteful use of resources within agriculture is to be avoided. If the ratios given in Table V are at all near the truth recent policy has been open to some criticism on this score.

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[1] *Use of Home Resources to Save Imports*, Economic Journal, March, 1950.

Mutton and beef deserved more support than they have received, even if allowance is made for the subsidies paid on calves and on hill cattle and sheep ; on the other hand, excessive protection has been given to wheat, sugar beet, pigmeat and milk. The conclusion is strengthened in the case of the two latter commodities when it is remembered that they are produced at the expense of importing feedingstuffs. According to an estimate published by the Ministry of Agriculture,[1] the feed cost (taken at duty-free prices) of pig production in England and Wales in 1953 was about 84 per cent. of the total price paid to the Danish producer to cover all his costs. If account is taken of the variation usually found in agricultural cost data between efficient and inefficient producers it becomes quite possible that some of our heavily subsidized pig production has added to our import bill more than it has saved. This is also possible in the case of milk, since although feed costs are a much smaller proportion of total costs for milk than for pigs, marginal additions to the milk supply can only be used for manufacturing purposes such as cheese-production, from which the Milk Marketing Board realizes less than half the average price paid to the producer for the milk. Quite apart from the question of feed costs, however, the volume of milk production has now reached the point at which, liquid consumption having ceased to grow and manufacturing capacity being at times used to the full, there is a threat of wastage simply because milk is available for which no use whatever can be found.

It is clear from the Minister's admirable speech during the House of Commons debate on 30th April, that those responsible for the conduct of agricultural affairs are for the most part aware of these considerations, and the recent price review went some way towards establishing a more satisfactory balance between the incentives for different products by reducing the guaranteed prices for wheat and pigs and raising those for beef and mutton. But the grant of a further increase in the milk price illustrates the difficulties in the way of arriving at a rational price policy by means of a process of collective bargaining. As the Minister remarked in the speech referred to, milk, pigs and eggs provide a substantial part of the small producers' income, and there are many, particularly among the ranks of the small producers themselves, who consider that the present distribution of the agricultural subsidies gives too little to the small producer and too much to the large. This is of course true if

[1] *Costs and Efficiency in Pig Production*, 1954, p. 15.

the purpose of the subsidies is to assist the equalization of incomes or to help those most exposed to the rigours of a competitive world. But if the values of products and resources are to be judged on economic criteria the claim has very much less truth. In the nature of things, however, social and political factors, as well as strict economic considerations, are bound to influence the determination of agricultural policy.

Among other points of detail to which it seems desirable that greater attention should be given is the improvement of the deficiency payment system for fatstock. Though this system has now been simplified to some extent by dropping the individual price guarantees, it remains not only far too complicated but it not infrequently fails to produce the intended results—it often happens that the subsidy goes down instead of up when the market weakens owing to the use of an involved and evidently unreliable moving average system for ascertaining market prices. It should be replaced by a more effective method and one whose comprehension does not demand a major intellectual effort. It is a matter of importance that the methods used should be readily intelligible to the farmer and should command his confidence; if they do not, the present widespread but fallacious belief that compulsory marketing schemes offer the only way available under present conditions of giving satisfactory price guarantees will be encouraged, possibly with deplorable results.

Reference must be made, in conclusion, to one other difficult and important question to which attention has already been drawn in an earlier paragraph. That is the question of rents. Unless we are to regard rent as a form of robbery instead of the price paid for the use of a valuable asset, the present state of affairs is obviously indefensible. At a competitive level rents would today probably be about twice as high as they actually were in 1953–54. In other words, the present arrangements in effect transfer to farmers some £50 or £60 millions of annual income which would otherwise go to landlords, and which—if we accept the assumptions of the free economic system—we are bound to conclude ought to go to them in the first instance, whether or not they ought subsequently to be forced to part with it by taxation. Questions of equity apart, the result is a frustration of the working of the tenancy system in agriculture and a serious threat to the maintenance of the industry's fixed capital.

The 1947 Act gives the tenant farmer virtually complete security of tenure and does not allow any variation of rents to

sitting tenants (otherwise than as payment for capital improvements) except by agreement or arbitration. Only when tenants die or voluntarily quit does the landlord have the opportunity of re-letting a farm at a competitively determined rent, and many landlords not unnaturally prefer to take the opportunity thus presented of selling the land with possession and realizing the large premium which vacant land is bound to command when rents are far below the competitive level. When rents are virtually fixed they lose their power either to regulate the supply of and demand for land or to control the efficiency of its use. The prospective tenant's chance of obtaining a rented farm, or the sitting tenant's fitness to remain in occupation, are not determined by their ability to make the land yield a competitively determined rent. Short of defaulting on his obligations, the sitting tenant is safe as long as he avoids such conspicuous mismanagement as to bring him to the notice of his County Committee for breach of the rules of good husbandry. The prospective farmer.on the other hand, whatever his energy and ability, has in most cases little chance of realizing his ambition unless he can manage somehow or other to buy a farm.

If rents were to rise substantially farmers would no doubt ask for a corresponding increase in the guaranteed prices fixed under Part I of the Agriculture Act. An increase of prices sufficient to recoup to farmers an extra rental of £50 or £60 millions a year would be of the order of 5 per cent. on the average. The political difficulties involved either in raising prices in order to enable farmers to pay higher rents or in obliging farmers to pay higher rents without raising prices would no doubt be acute. But the advantages of restoring a free market in land and putting the tenancy system into working order would be inestimable. A good deal is said and written from time to time about the need for additional credit facilities for agriculture. It is sometimes forgotten that the simplest and most convenient method of enabling farmers to borrow is to allow them to borrow their farms. But as long as present rent levels and tenure arrangements continue the number who can do so is bound to be further diminished. It is impossible to believe that progressive extinction of tenancy is a development likely to contribute in any way to the future efficiency of British farming.

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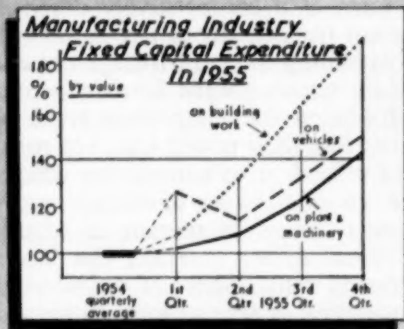
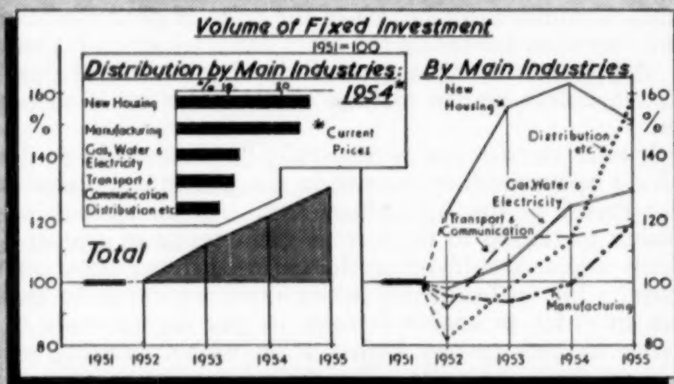
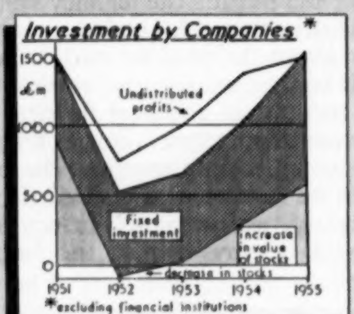
*Aberystwyth.*
*June,* 1956.

# INVESTMENT



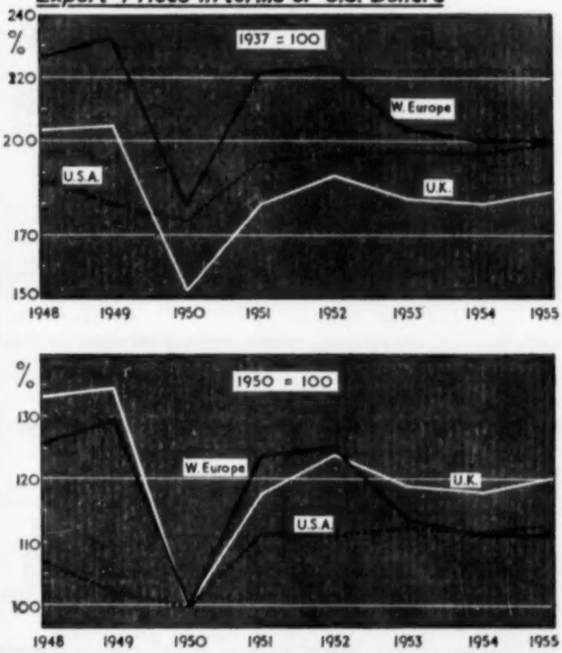




Sources: Board of Trade Journal
Economic Survey 1956

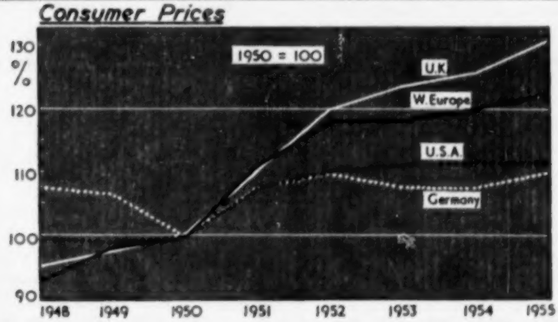
Fixed capital expenditure in manufacturing industry increased sharply throughout 1955 and in the last quarter was at a rate 50 per cent. greater than the 1954 average. By volume, such investment was up by a fifth on the year.

# PRICE TRENDS

## *Export Prices in terms of U.S. Dollars*




## *Consumer Prices*

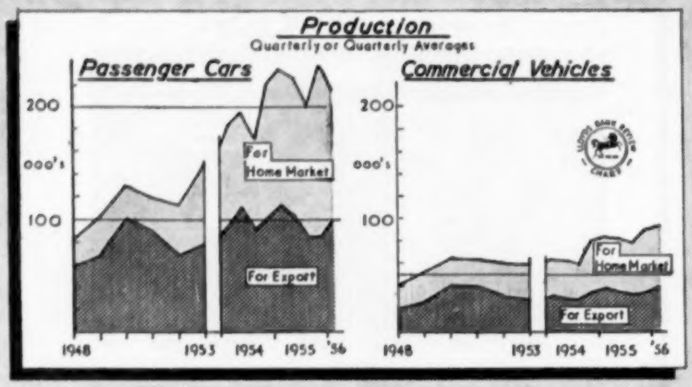


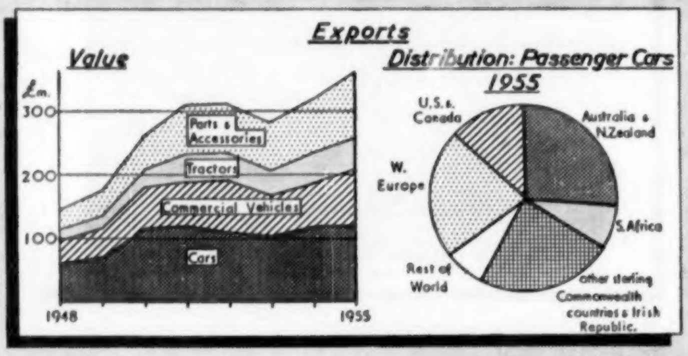

SOURCES: I.M.F. Financial Statistics
O.E.E.C. Statistical Bulletin

NOTES: (i) Export prices for U.S.A. are for finished manufactures.
(ii) Export prices for U.K. & W. Europe for 1949 are average January – August.

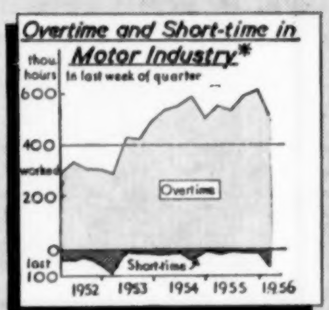
By 1955, our export prices (in terms of dollars) had risen rather less since 1937 than those for the U.S.A. or the average for W. Europe. Compared with 1950, however, our export prices had risen somewhat more, as was also the case with consumer prices.

# MOTOR VEHICLES








Sources: Society of Motor Manufacturers & Traders
H.P. Information
Monthly Digest of Statistics

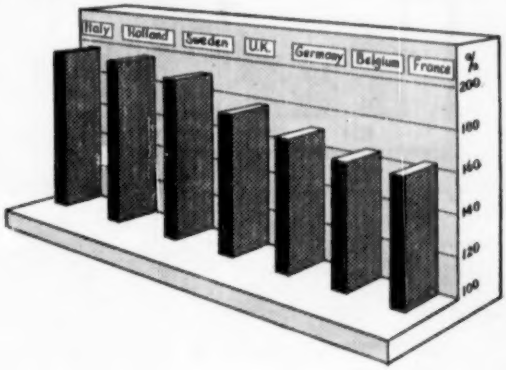
*covering 220-260,000 workers in manufacture of motor vehicles and cycles.

In recent years the home market has taken most of the increase in car production. Including parts and accessories, however, the value of vehicle exports has risen steadily, apart from the dip in 1953.

# INDUSTRIAL PRODUCTION

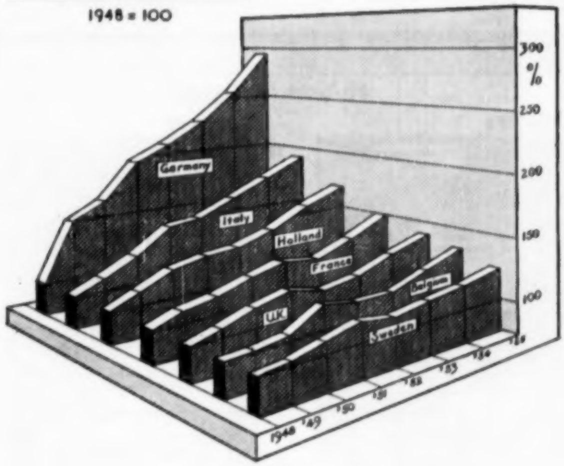
## *Production in 1955*

1938 = 100




## *Changes since 1948*

1948 = 100

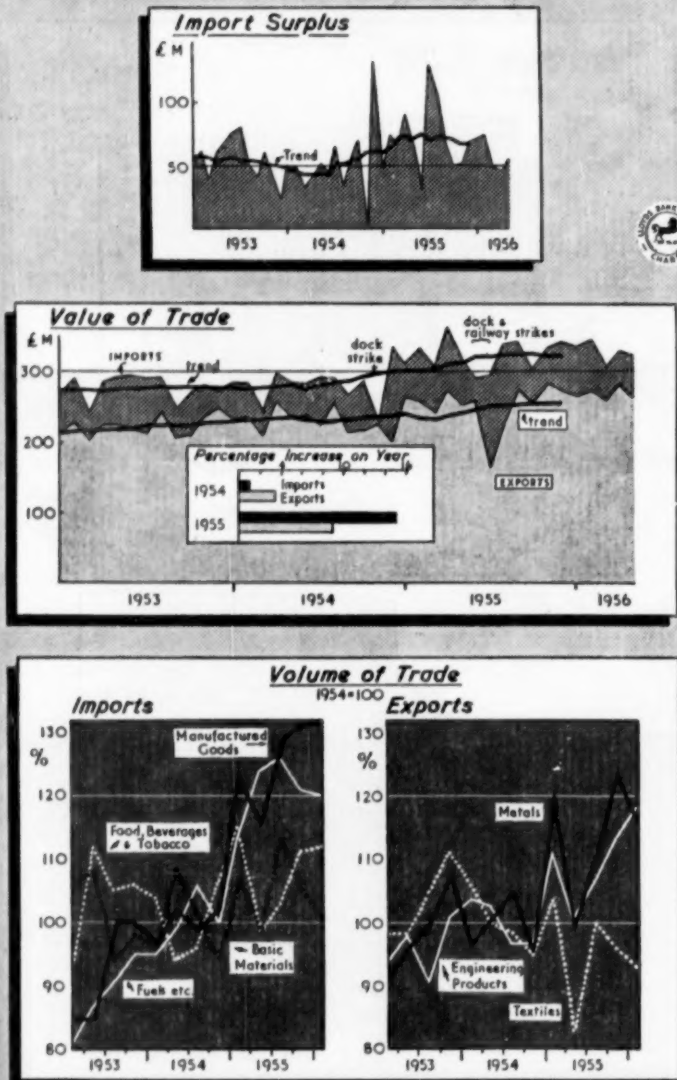



SOURCES: O.E.E.C. Industrial Statistics 1900–1955
O.E.E.C. Statistical Bulletin

NOTE: All indices exclude building.

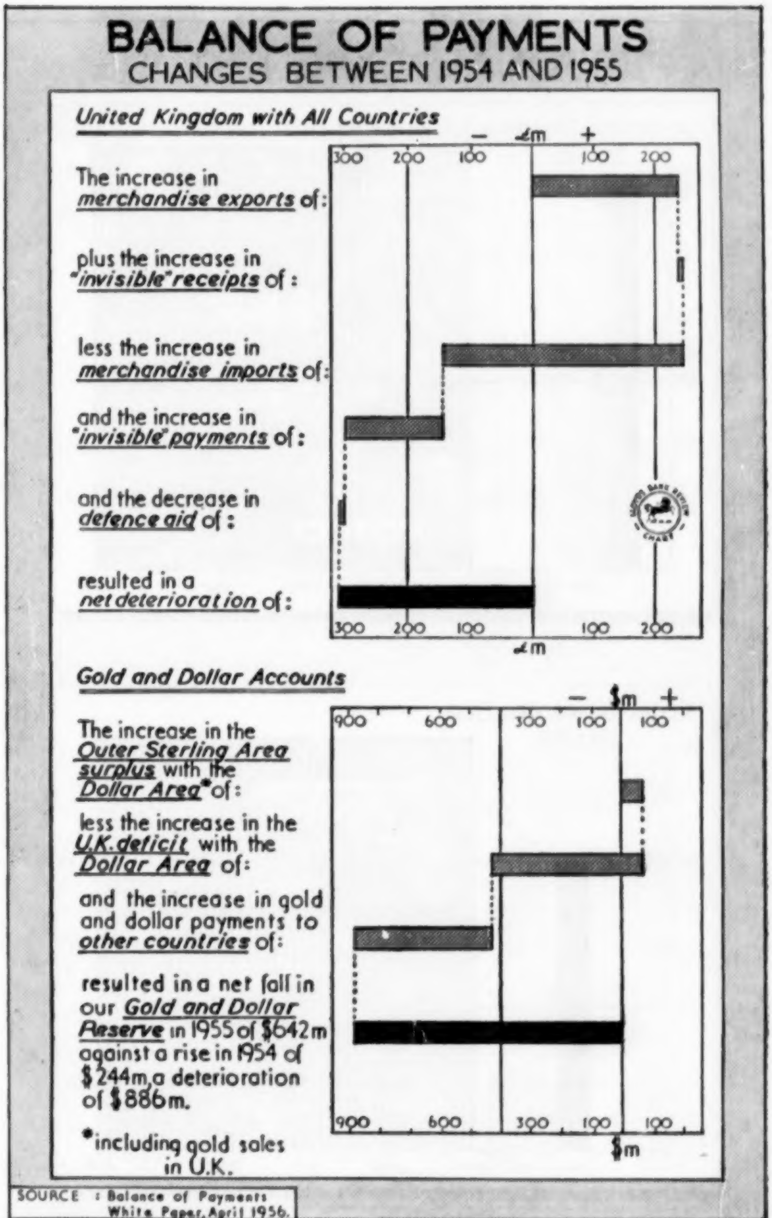
As estimated by O.E.E.C., U.K. industrial production last year was about 75 per cent. greater than in 1938. This was somewhat more than the increase recorded over the period in Germany, where the rate of progress in recent years has been particularly high.

# OVERSEAS TRADE

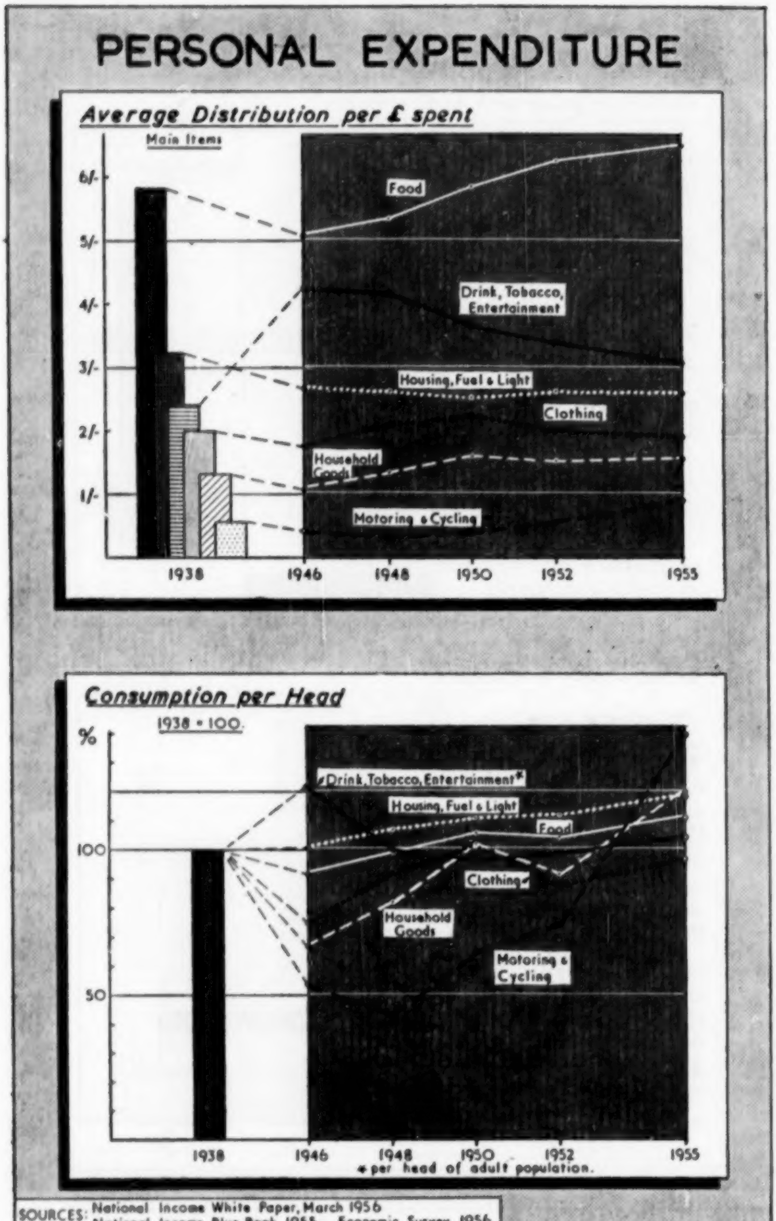



SOURCES: Trade & Navigation Accounts. Report on Overseas Trade.

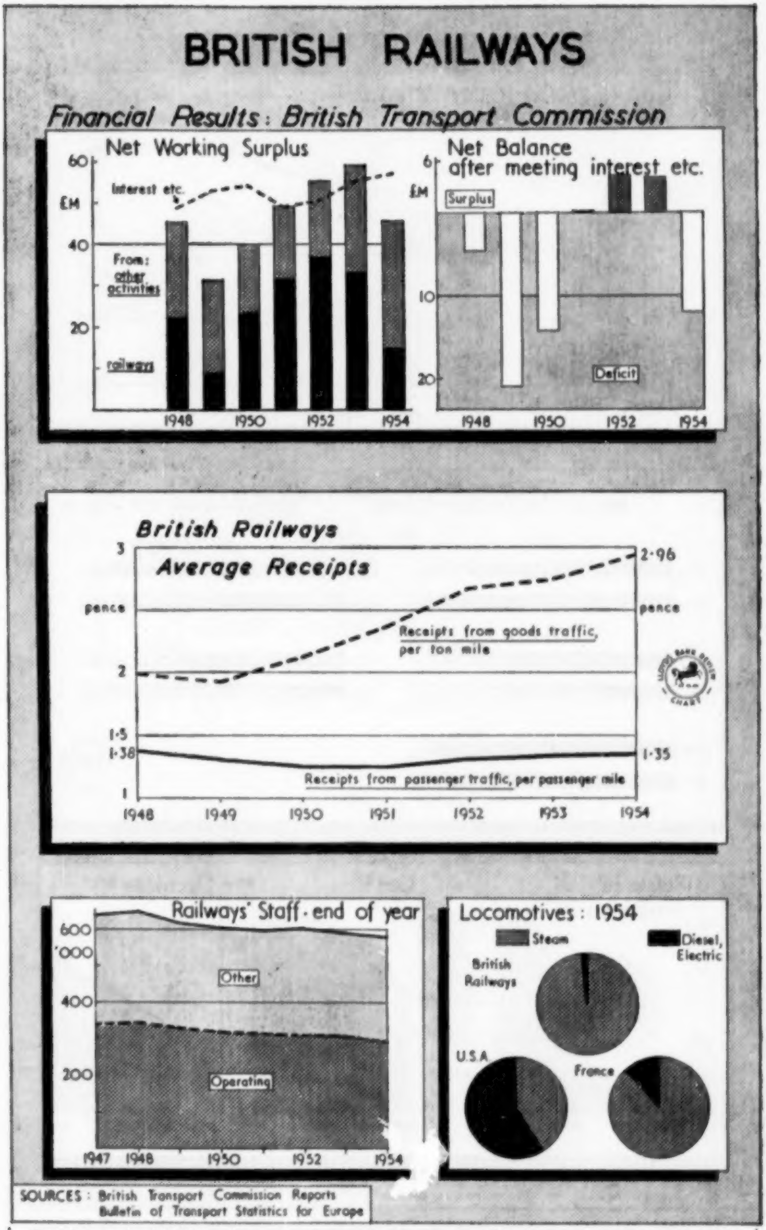
In the five months January to May, this year our import surplus averaged £51 millions, against £66 millions in 1955. In the first quarter, by volume exports were 5 per cent. up on the same period of 1955 (allowing for the delayed effects of the 1954 dock strike), while imports showed little change.



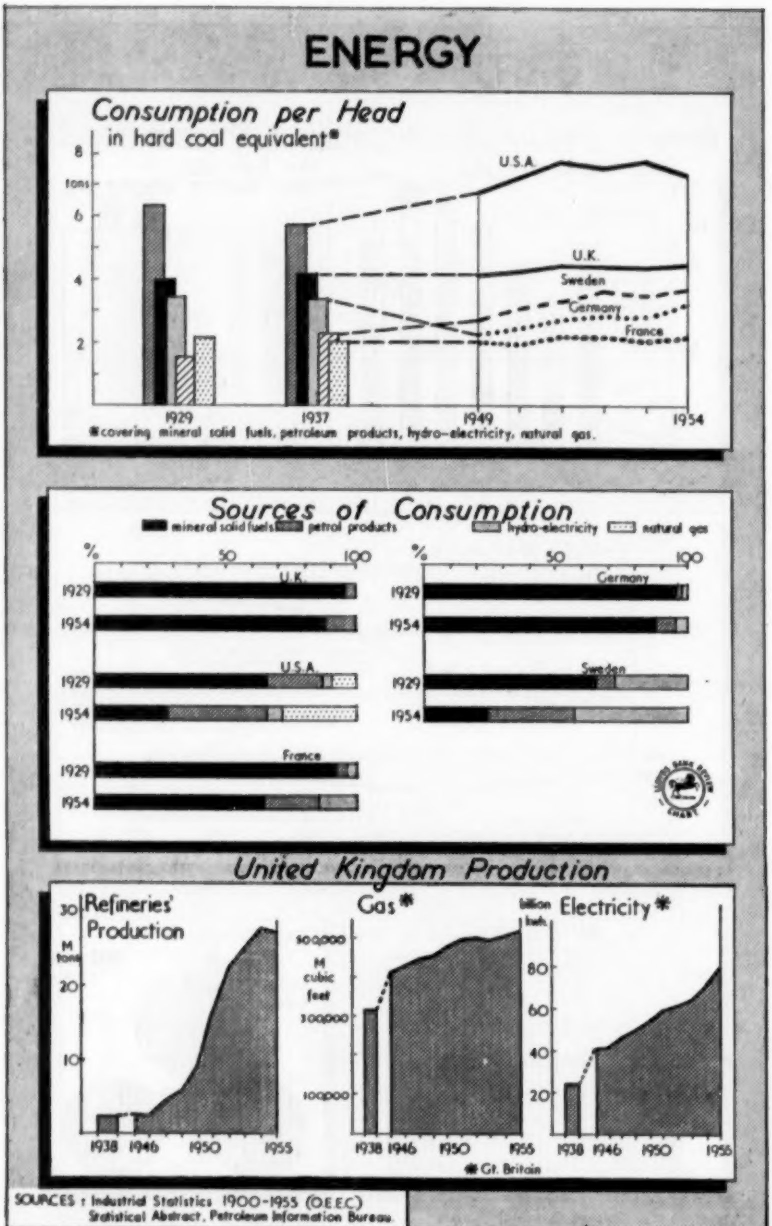

Last year saw a deficit on current account of £103 millions, including defence aid, against a surplus in 1954 of £205 millions, a deterioration of £308 millions. Rather less than half of this was due to a fall in our net "invisible" earnings.




The distribution of personal expenditure is now, on an average, somewhat different from the pattern in the immediate post-war years. Roughly a third of the total in 1955 was spent on food.




By the end of 1954, after meeting central charges for interest, etc., the British Transport Commission showed a cumulative deficit of £39 millions. Average receipts per passenger mile in 1954 were still slightly less than in 1948.




Consumption of energy per head in this country in 1954 was 13 per cent. greater than in 1929. By far the greater part was still derived from mineral solid fuels (coal etc.), in contrast to the marked changes that have occurred, for example, in the U.S.A. and Sweden.

**COINS OF THE REALM:**
*Illustrations by permission of the Trustees of the British Museum.*

*Sesterce of Antoninus Pius*
*Actual size: 32 mm. diam.*

# *Who was Britannia?*


*Charles II halfpenny*
*Actual size: 30 mm. diam.*

OUR MODERN coinage begins with Charles II. Among his innovations were, in 1672, copper halfpennies and farthings (since 1860 minted in bronze). They were the first British pieces to depict 'Britannia'. The prototype of this figure was *Roma*, patriotic symbol of the Roman State, to be seen on numerous Imperial coins. One of these is illustrated above. The face of the Britannia on Charles's coins is that of his favourite, Frances Stuart, Duchess of Richmond. Henrietta Maria said she was "the prettiest girl in the world", and Mr. Pepys thought her "the greatest beauty I ever saw".

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